Enhancing Post-Acquisition Organisational Performance: The Role of Leadership

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Abstract

One of the issues that post-acquisition integration fails to achieve the intended benefits is attributed to poor leadership (Covin *et al*, 1997; Graebner, 2004; Haspeslagh and Jemison, 1991; Javidan *et al*, 2004; Nemanich and Keller, 2007; Marks and Mirvis, 1998; Pablo, 1994; Sitkin and Pablo, 2004). These studies point to the fact that effective leadership will lead to the harmonisation of the post-acquisition integration process and that in turn will yield enhanced acquisition performance. However, the association between leadership and post-acquisition performance is not clear, as it is a phenomenon that has not been studied thoroughly and the existing studies indicate conflicting results. Moreover, this association is often complicated by various influences such as the intended level of integration of the two entities, as well as a range of contingency factors such as the motives of the acquisition, acquisition experience, size and relatedness (Birkinshaw *et al*, 2000; Chatterjee *et al*, 1992; Datta, 1991; Weber, 1996).

Therefore, against this background the main aim of this study is to investigate the relationship between leadership and post-acquisition organisational performance. The objectives of this study are: (a) to extend the literature on leadership-performance relationship in dynamic environments by empirically investigating the extent to which leadership influences performance in the context of acquisitions, (b) to establish how leadership styles act as a determinant of performance under different acquisition conditions. In meeting this objective the companies that were selected were from both the service and manufacturing industries and had engaged in both domestic and cross-border acquisitions, (c) to establish the extent the relationship between leadership style and performance is contingent upon the degree of integration adopted by the acquiring firm. In meeting this objective this study seeks to further integrate the study of leadership with the literature on the acquisition process.

In order to meet these objectives a thorough review of the literature on the post-acquisition integration process was carried out. This review revealed that there are four schools of thought in the literature. After a critical assessment, it was concluded that this study will focus on the process school of thought but will also draw from the organisational behaviour school of thought and the culture school. This enables for a multidisciplinary assessment of the predictors of performance and the role that leadership plays in this context. Established constructs were used to assess the predictors and performance was measured by employing both financial and non-financial indicators overcoming limitations that were present in the literature. This mixture of indicators will allow for a more coherent assessment of performance moving away from the traditional finance literature that has dominated M&A research. The study's variables are: the motives for the acquisition, relatedness (organisational, strategic and organisational culture fit), relative size, previous acquisition experience, transfer of resources, capabilities and knowledge, leadership styles and post-acquisition organisational performance.

To identify potential respondents for participation in the study certain criteria were established. The total population that met these criteria was 764. The response level consists of 139 acquisitions (18.7%) and is satisfactory. In order to investigate this relationship multiple and hierarchical regression analyses were used. To meet the second objective the sample was split into two sub-groups according to their industrial classification and market/geographic relatedness. To meet the third objective the sample was divided according to the degree of integration between the acquiring and the target organisation. Finally, backward deletion regression was used to find out the most significant determinants of post-acquisition organisational behaviour in different settings.

The results from testing the first objective indicated that leadership has an important role in managing the post-acquisition integration process and enhancing post-acquisition organisational performance. Moreover, following Bass's (1985) classification of leadership styles further investigation of what attributes constitute an effective leader in the post-acquisition integration process were assessed. The results from testing the second and third objective indicated that in different settings different emphasis on leadership will be placed. It was found that in domestic acquisitions leadership does not emerge as a predictor of performance whereas, in cross-border acquisitions leadership has a significant role in achieving higher results. Similarly, in manufacturing firms there were other significant predictors of performance and not leadership, whereas, in service firms leadership was the most significant predictor. The reasons for these differences are explicitly analysed in the implications of this study.

This research contributes to the existing body of knowledge in four distinct areas. It covers the gap in the literature regarding the role of leadership in enhancing post-acquisition organisational performance. It extends and further contributes to the understanding of the process school of thought in acquisitions. It also provides an integrated model of measuring post-acquisition organisational performance combining both financial and non-financial indicators. Finally, it contributes to the literature on the relationship between leadership and performance in dynamic environments. Few studies have focused on this relationship and most of them have been conducted in stable environments (Bass *et al*, 2003; Nemanich and Keller, 2007) and not in dynamic processes such as an acquisition. This study has successfully placed the study of leadership within the literature on the acquisition process.

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Chapter 1:

Introduction to the study

1.1 Preamble

'Integration is the key to making acquisitions work. Not until the two firms come together and begin to work toward the acquisition's purpose can value be created' (Haspeslagh and Jemison, 1991:105). In this statement, Haspeslagh and Jemison (1991) have encapsulated the importance of the post-acquisition integration process on realising the expected benefits and creating value to the organisation. Shrivastava (1987) claimed that long-term acquisition growth and performance depend on how companies are integrated. However, most of scholars conclude that integration may be risky and if not managed properly can ultimately lead to acquisition failure (Datta, 1991; Jemison and Sitkin, 1986; Weber, 1996; Larsson and Lubatkin, 2001; Larsson and Finkelstein, 1999; Vaara, 2002). One of the reasons that post-acquisition integration fails has been attributed to poor leadership (Covin *et al*, 1997; Graebner, 2004; Haspeslagh and Jemison, 1991; Javidan *et al*, 2004; Nemanich and Keller, 2007; Marks and Mirvis, 1998; Pablo, 1994; Sitkin and Pablo, 2004). These studies point to the fact that effective leadership will lead to harmonisation of the post-acquisition integration process and will in turn yield enhanced acquisition performance. However, the association between leadership and post-acquisition performance is not clear, as it is a phenomenon that has not been studied thoroughly and existing studies indicate conflicting results. Moreover, this association is often complicated by various influences such as the intended level of integration of two separate entities and numerous contingency factors such as the motives of the acquisition, acquisition experience, size and relatedness (Birkinshaw *et al*, 2000; Chatterjee *et al*, 1992; Datta, 1991; Håkason, 1995; Haleblian and Finkelstein, 1999; Weber, 1996; Vaara, 2002). Therefore, against this background the main aim of this study is to investigate the relationship between leadership and post-acquisition organisational performance in order to yield further insights on the dynamics of the post-acquisition integration process as well as on the factors that contribute to enhanced post-acquisition organisational performance.

The aim of this chapter is to introduce the reader to the study and to outline the purpose of the research. The chapter also describes the concept of acquisition as a strategic choice for many organisations and outlines the importance of the post-acquisition integration process as a driver of acquisition performance. Accordingly, this chapter:

- provides a critique of the literature (section 1.2),
- proposes a deductive model depicting the relationships between dynamic factors, leadership and post-acquisition performance (section 1.3),
- discusses the importance of the study and its contribution to existing knowledge (section 1.4),
- outlines the aims and objectives to be examined (section 1.5),
- presents an outline of the research methodology of the study (section 1.6),
- describes the structure of the thesis and the order of presentation (section 1.7).

1.2 Literature Review

Acquisitions have become a well-institutionalised phenomenon in the structure and behaviour of business organisations (Pablo, 1994). Firms consider acquisitions to be a superior strategy which allows an investment of corporate resources so as to maximise their efficiency, strengthen their market position and ultimately gain competitive advantage. However, acquisitions do not always yield the expected results. While some studies have suggested that acquirers realise positive gains and increased performance (Healy *et al*, 1992; Lubatkin, 1987; Seth *et al*, 2002; Sudarsanam and Mahate, 2006) and the very least do not necessarily perform more poorly than their non-acquiring counterparts (Bradley *et al*, 1988; Sirower, 1997), the evidence predominantly suggests that the intended benefits of an acquisition are in fact not often realised, with acquiring firms showing evidence of poor performance (Agrawal *et al*, 1992; Birkinshaw *et al*, 2000; Hitt *et al*, 2001; Larsson and Lubatkin, 2001; Ravenscraft and Scherer, 1987; Vaara, 2002).

Scholars from different disciplines and perspectives have tried to find the root of the problem and solve the acquisition puzzle. However, as traditional financial, strategic and organisational perspectives have not been able to explicate the negative outcomes, researchers have begun to focus on factors influencing the management of post-acquisition relationships as potentially critical in acquisition success or failure (Angwin, 2007; Krishnan *et al*, 1997; Nemanich and Keller, 2007; Pablo, 1994; Srivastava, 1987; Weber, 1996; Vaara *et al*, 2003).

Mergers and acquisitions (M&As) have gained in popularity over the last two decades. Corporate acquisitions are frequently in the news as companies seek to establish a competitive advantage over their rivals. M&As have long been a popular strategy for firms and represent an important alternative for expansion and diversification. Technological developments, globalisation, economic or strategic barriers to growth have vastly contributed to the popularity of acquisitions and represent the primary means by which many companies can quickly attempt to grow revenues (Shimizu *et al*, 2004). M&As are undertaken to fulfil various corporate objectives. They may be intended to reduce the likelihood of hostile takeovers, to diversify risk or to achieve competitive advantage through synergistic efficiencies. They may involve merely accounting functions and create a new legal entity, or, at the other end of the spectrum, they may involve integration of capital assets, functional departments and human resources (Love, 2000; Shrivastava, 1987).

'Mergers' and 'Acquisitions' are legally different transactions (Cartwright and Cooper, 1996). However, 'mergers and acquisitions' or M&As are two terms often used interchangeably and frequently discussed as a 'package' in academia. The literature in this field indicates a degree of ambiguity between an acquisition and a merger. Many researchers use both terms so as to include all types of corporate combinations. However, using both terms interchangeably may implicitly give the impression that M&As are the same phenomenon. For the purpose of this study and to avoid any confusion, the main focus will be on acquisitions and the connotations that this term carries, which will be discussed below. The findings of this study might be extended to merger settings but it will only focus on acquisitions.

In a merger, corporations come together to combine and share their resources to achieve common objectives. The shareholders of the combining firms often remain as joint owners of the combined entity. An acquisition resembles more of an arm's length deal (Sudarsanam, 1995) where one firm purchases the assets or shares of another and the acquired firm's shareholders cease to be owners of that firm. In a merger, a new entity may be formed subsuming the merging firms. In an acquisition the acquired firm becomes the subsidiary of the acquirer. Table 1.1 outlines the various definitions of 'Mergers' and 'Acquisitions'.

Table 1.1: Definitions of the terms 'Merger' and 'Acquisition'

Author	Merger	Acquisition
Brealy and Myers (2003)	Is the combination of the shares and stocks of two firms in order to establish a new company	Is the purchase of the firm's stock in exchange for cash, shares, stock or other securities
Johnson *et al* (2004)	Is where the strategies of two firms are combined in order to establish a new entity	Is where strategies are developed by taking over ownership of another organisation
Schraeder and Self (2003)	Are commonly characterised as the consolidation of two organisations into a single organisation	Are commonly characterised as the purchase of one organisation from another where the buyer or acquirer maintains control
Vaara (2000)	Is a combination of organisations which are rather similar in size and which create an organisation where neither party can clearly be seen as the acquirer	Is a takeover of one company which the acquirer wishes to absorb into their own operational systems
Wang and Zajac (2005)	Occurs when two firms combine all their assets to become one legal firm	Refers to the interfirm transactions that involve partial or complete ownership transfer from one firm to another

This research uses a compilation of the above definitions on acquisitions. Therefore, the definition of acquisition, which will be used for this study and is derived from the previous understanding of acquisition, is as follows:

"An acquisition occurs when one company acquires another and transfers their practices and policies through redesigning and altering the target organisation"

As mentioned earlier, acquisitions are an important vehicle for corporate profitability and growth. On one hand, acquisitions help firms reduce their costs by achieving greater scale (Seth, 1990). On the other hand, they provide a mechanism by which firms gain access to new resources that produce operating efficiencies and increase revenues by changing the ways in which a firm operates (Anand *et al*, 2005). This phenomenon has inspired academics from economics, finance, management and strategy to investigate whether M&As create value for acquirers and targets.

Despite the frequency of their occurrence, approximately 70% of M&As fail (see Datta *et al*, 1992; Hitt *et al*, 2001; Loderer and Kenneth, 1992; Sirower, 1997). Previous research, particularly in the finance and economics literature, has demonstrated that many M&As do not result in the benefits expected by the decision-makers. Researchers have cited a wide variety of reasons for M&As failure. Some studies suggest that certain M&As may be doomed to fail from the start. Academics cite evidence that acquiring firms are apt to overpay (Sirower, 1997; Haunschild, 1994) and that those firms may make inappropriate decisions regarding the target partners. Other researchers suggest that it is the integration strategy and implementation that affects the likelihood of success and failure (Haspeslagh and Jemison, 1991).

In an attempt to understand the reasons for the high failure rate, more recent M&As research has focused on managerial attributes and human resource activities, particularly during the integration phase (Datta, 1991; Haspeslagh and Jemison, 1991; Shrivastava, 1987; Vaara, 2002). Unfortunately, empirical studies relating to this topic seldom reach consistent conclusions. Furthermore, most studies do not explicitly link the various strategies pursued in M&As with the degree of success that is eventually obtained (Haspeslagh and Jemison, 1991; Larsson and Finkelstein, 1999; Sirower, 1997). Research on this type of diversification strategy has not kept pace with this trend. While there is considerable research in the area, it is unfortunately fragmented, leaving gaps that need to be addressed.

During the past decade, post-acquisition organisation design has moved from the periphery of M&As concern to centre stage (Accenture Report, 2005). Effective post-acquisition integration is dynamic rather than static. There is a growing recognition that 'all value creation takes place after the acquisitions' (Haspeslagh and Jemison, 1991:129), the topic of post-acquisition integration has received increasing attention (Capron *et al*, 1998; Datta, 1991; Larsson and Finkelstein, 1999; Shrivastava, 1987). The M&As literature points to the challenges of post-acquisition integration, or the degree to which different functions of the two previously separate organisations are brought under a single hierarchical structure. In particular, choosing and implementing the appropriate integration approach is posited to lead to acquisition access (Haspeslagh and Jemison, 1991). One of the reasons that acquisitions fail is due to problematic leadership, unclear vision and lack of implementation skills (Kay and Shelton, 2000).

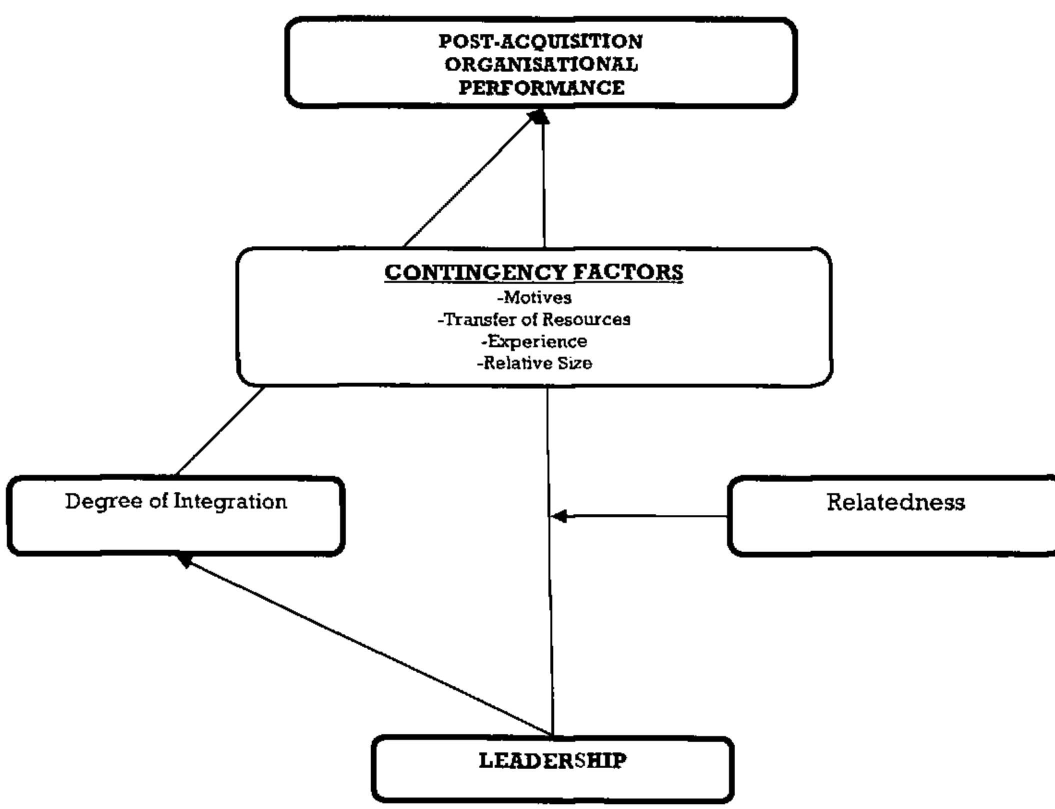
The effect of leadership during the implementation of the process is a factor that can influence post-acquisition organisational performance. Leadership plays a strategic role in organisational change designs as it demonstrates 'the ability to anticipate, envision, maintain flexibility and empower others to create strategic change as necessary' (Ireland and Hitt, 2005:63). In the case of acquisitions, it could be argued that effective leadership can lead to the success of the post-acquisition integration process as the leader will be able to handle any conflicts that may arise between the employees, coordinate the integration of the two organisations, understand the organisational culture of the target organisation and try to integrate the departments, the policies and practices as smoothly as possible.

Therefore, this study seeks to fill a gap in the extant literature by examining the impact of leadership in the dynamic context of acquisitions. This study addresses the dearth of research in this area and accordingly contributes to the literature.

1.3 The deductive model

The literature (Covin *et al*, 1997; Graebner, 2004; Haspeslagh and Jemison, 1991; Nemanich and Keller, 2007; Sitkin and Pablo, 2004) suggests that leadership has an impact on post-acquisition organisational performance and plays an integral part in the success of the acquisition. However, few studies have explored the relationship between leadership styles and post-acquisition organisational performance (Sitkin and Pablo, 2004). Therefore, based on the literature that was assessed and analysed in section 1.2, this section presents the derived deductive model of the study. The various elements that make up the model will be covered in detail in the literature review, part one, of the study. These chapters draw heavily upon the existing literature, including previous empirical studies in this field.

Figure 1.1: The deductive model of this study



1.4 Aims and objectives of the study

Against the background mentioned in section 1.2 and the proposed deductive model in section 1.3 the main aim of this study is to:

"To investigate the relationship between leadership and post-acquisition organisational performance"

The objectives of this study are:

- to extend the literature on the leadership-performance relationship in dynamic environments by empirically investigating the extent to which leadership influences performance in the context of acquisitions,

- to establish how leadership styles act as a determinant of performance under different acquisition conditions. In meeting this objective the companies that were selected were from both the service and manufacturing industries and had engaged in both domestic and cross-border acquisitions,

- to establish the extent to which the relationship between leadership styles and post-acquisition organisational performance is contingent upon the degree of integration adopted by the acquiring firm. In meeting this objective this study seeks to further integrate the study of leadership within the literature on the acquisition process.

1.5 Significance of the study and its contribution to existing knowledge and understanding

This section is concerned with justifying the importance of the study and the contribution that it makes to the existing body of knowledge. The results of this work will assist practitioners to gauge the circumstances under which leadership styles are likely to have an impact on the subsequent performance of an acquisition. In section 1.2, the author identified the gaps in the existing literature in relation to the success of post-acquisition integration process which are reiterated as follows:

- the impact of leadership styles on post-acquisition organisational performance is unclear. Most of the studies refer to leadership in passing without fully analysing its effect in the implementation of this strategy,
- little is known on the impact of leadership styles on the post-acquisition integration process,
- no attempt has been made so far to examine the main concepts outlined in the deductive model in an integrated manner using one sample.

It was shown in section 1.2 that the majority of acquisitions fail due to the lack of understanding of these issues. Although leadership has been widely acknowledged as a main contributor to the success of an acquisition, little has been done to empirically test this relationship. Therefore, this study through the development of the deductive model is bridging the gap in the literature and thus, contributing to the further understanding of the complex phenomenon of acquisitions. The main contribution of this study is twofold. First, it contributes to the M&As literature as it places leadership in the post-acquisition integration context. There are only few empirical studies relating transformational leadership in acquisitions and these studies have investigated the effects of leadership on employee behaviour (Graebner, 2004; Nemanich and Keller, 2007) rather than on post-acquisition organisational performance. Javidan *et al* (2004) pointed to the fact that the lack of studies on leadership in the acquisition context presents a gap that should be addressed by researching the leadership style that is more appropriate in this context.

This study fills this gap and extends the literature on the post-acquisition success factors. Second, this study contributes to the leadership literature and especially to the link between leadership and performance. Thorough and systematic research of the literature was conducted, which revealed that only few studies have focused on this relationship and most of them have been conducted in stable environments (Bass *et al*, 2003; Nemanich and Keller, 2007) and not in dynamic processes such as an acquisition.

Moreover, this study provides chief executives, managing directors, transaction directors, policy makers, management consultants and researchers with:

- a greater understanding of the concepts that are associated with enhanced performance,
- an understanding of what enhances post-acquisition organisational performance based on an integrated framework,
- an understanding of the more important dimensions of each of the concepts at a more detailed level,
- a template from which existing approaches to post-acquisition integration and acquisition success can be critically examined.

1.6 Outline of the research methodology

The aim of this section is to present a brief outline of the methodology used in the research. The research methodology is described in detail in chapter 6 of this thesis. The research process comprises of four main phases: an extensive literature review, questionnaire development, piloting of the questionnaire and data collection and its analysis.

A **literature review** is stated by Bell (1987) to be a very important stage of any study. It is used as the foundation for the research and provides the theoretical framework for the study. In this study, the literature review has the following aims:

- to provide an analysis of the dynamics that exist in acquisitions and to understand and evaluate the significance of acquisitions as a growth strategy,
- to examine the nature of the post-acquisition integration process by evaluating the existing studies,
- to review the existing studies on the association between leadership and organisational performance, to explore the dimensions of leadership that are appropriate for the post-acquisition integration process,

- ➢ to review the existing studies on organisational performance and post-acquisition organisational performance to derive certain performance measures,
- ➢ to consider the broad research philosophies and research strategies as well as the methods appropriate for data analysis.

The aim of the study determines the structure of the literature review. Each of these aims is allocated a separate chapter. Veal (1992:32) argued that a literature review enables the researcher to 'identify concepts clearly and measure them accurately'. A thorough literature review is therefore necessary to identify the relevant published research. A variety of databases were used to identify key publications in these areas. In particular the literature review was used to identify the characteristics and nature of the post-acquisition integration process, the dimensions of leadership, the different measures of post-acquisition organisational performance as well as other contingency factors that are relevant to acquisitions for inclusion in the survey instrument. This means reviewing the definitions of each aspect of the model, deriving their common themes to achieve a consensus in the derived definitions. This in turn means establishing the basis for each of the characteristics, dimensions and measures derived in the extant literature.

Questionnaire development follows the formulation of the deductive model and is directly linked to the thorough analysis of the literature. In designing questionnaires, the validity of the constructs was one of the key considerations. To ensure external validity, the author adopted a strategy based on identifying tried and tested relevant constructs. For a further analysis of the validity of the constructs, see chapter 6 of the study.

The **pilot testing** of the draft questionnaire is an important stage in the study, particularly as many of the concepts are complex. The literature suggests that the pilot questionnaire should be tested on 'people who resemble the types of people to whom the questionnaire will finally be given' (DeVaus, 2005:103). Accordingly, twenty chief executives of companies that engaged in acquisitions during the period 2001-2004 were chosen. Kidder (1981, cited in May, 2003) encapsulated the rationale for a pilot survey stating that: '*changes are necessary before the start of the full-scale study. The pre-test provides a means of catching and solving unforeseen problems in the administration of the questionnaire, such as phrasing and sequence of questions or its length. It may also indicate the need for additional questions or the elimination of others*'. The pre-testing of the questionnaire aimed to ensure content validity, to establish that the questions are clear and understood and to ascertain that the final instrument contained relevant questions only. In the light of the results of the pilot survey, a number of minor alterations were made to the survey instrument such as:

- the removal of some redundant or ambiguous questions,
- the addition of new categories of response to some questions,
- the revision of the structure of some of the questions.

The final step was the **data gathering and analysis process**. This process was carried out using a postal survey approach. The primary data is taken from a national sample of 764 organisations that had engaged in acquisitions between 2001 and 2004. 139 completed questionnaires were returned, representing a response rate of approximately 19%. Data analysis involved the use of a number of statistical techniques:

- factor analysis was used on all the main concepts as a means of data reduction. It was also used to identify the underlying factors in each dimension,
- Cronbach's alpha was used to establish internal consistency of the constructs and their reliability,
- independent samples t-test was used to assess the differences in the sub-groups of the sample,
- multiple regression, moderated multiple regression and backward elimination regression were used to assess the predictors of post-acquisition organisational performance in different settings,
- hierarchical regression was used to assess the role of leadership and its association with post-acquisition organisational performance under different acquisition conditions.

1.7 Structure of the thesis

This thesis comprises ten chapters and is divided into three parts. Part one presents the findings of the literature review; part two presents the methodology and the research design and part three presents the findings of the analysis of the data. The structure of the thesis, therefore, is as follows:

Chapter One provides an overview of the context of the study and outlines the research precedent. It also presents the aims and objectives of the study as well as the deductive model.

Part 1, the literature review, consists of four chapters (chapters 2-5). *Chapter Two* begins the critical review of the literature by focusing on the dynamics and challenges of both domestic and cross-border acquisitions. *Chapter Three* critically reviews the literature on the post-acquisition integration process. It assesses the different schools of thought and justifies the school of thought that underpins this study. *Chapter Four* critically assesses the role of leadership in the context of acquisitions and derives the hypotheses of this study. *Chapter Five* documents and critically reviews the literature relating to the concept of measuring acquisition performance. It reviews the extant literature on financial and non-financial performance measurement systems and finalises performance measures appropriate to this study.

Part 2 consists of the methodology and research design (chapter 6). *Chapter Six* describes the design of the research. It outlines the development of the survey instrument and the subsequent pilot testing of the survey questionnaire. The chapter justifies the design and deployment of the questionnaire approach. It also, outlines the administration of the questionnaire and continues by describing the methodology for analysis.

Part 3, the data analysis, consists of two chapters (chapters 7 and 8). *Chapter Seven* provides the univariate statistics. It outlines the data validation and data reduction process deployed. Moreover, it provides a descriptive analysis of the sample characteristics as well as the differences in the sub-groups of the sample. *Chapter Eight* reports on the multivariate statistics. It presents the results from the testing of the hypotheses and the assessment of the deductive model.

Chapter Nine presents the conclusions of the research as well as the limitations and recommendations for future research. It discusses the managerial implications derived from the assessment of the deductive model.

Chapter 2:

Mergers and Acquisitions: An Overview

"It's easy to do a deal.
It's tough to do a deal that works"
(Jerre Stead, 2004)

2.1 Preamble

In the 1980s acquisitions became an increasingly broad-based phenomenon as firms renewed their competitive positions, industries restructured in their own ways and acquisition activity spread around the world. During the last few years (1999-2006), activity in the market for M&As has reached unprecedented growth levels. M&As have received immense interest as a strategic vehicle for achieving corporate objectives and enhancing organisational performance. M&As enjoy an enormous amount of popularity as a strategic option for creating external growth (Markovitch *et al*, 2005; Sirower, 1997). M&As are also popular in the research community (Cartwright and Schoenberg, 2006). Typical classic studies in M&As activities concentrate on motivations, prospects, identifications and processes with which M&As strategies can be created and managed (Birkinshaw *et al*, 2000; Larsson and Finkelstein, 1999; Schoenberg, 2006).

It is surprising however, that M&As have not been able to yield positive results and increased performance. More and more researchers come to the conclusion that M&As do not generate favourable results (Gerbaud and York, 2007; Laamanen and Keil, 2008; Schoenberg, 2004). This means that understanding the sources and determinants of value creation or value loss is vital to comprehending the causes of success and failure of corporate acquisitions. Therefore, the aim of this chapter is to provide an insight on what an acquisition entails. It will provide an understanding on:

- different types of acquisitions (section 2.2),
- M&As waves (section 2.3),
- motives for acquisitions (section 2.4),
- challenges in acquisitions (section 2.5),
- challenges in cross-border acquisitions (section 2.6).

2.2 Different types of acquisitions

There are three different types of acquisitions. These categories are *horizontal, vertical* and *conglomerate* acquisitions (Cartwright and Cooper, 1996; Gaughan, 2002). A horizontal acquisition occurs when two competitors combine. This is when a company takes over another company from the same industry and at the same stage of the production process. Motivation is usually the enhancement of market power and/or to obtain production economies. By executing a horizontal acquisition, a direct competitor is bought and his market share acquired. Barriers to entry may be increased, because potential entrants fear competition with a larger company (Bühner, 1991). Furthermore, this type of acquisition may result in increased market concentration but may not diminish the competitive rivalry among the residual players in the market. Thus, it may not lead to increased revenue for the new combined firm. Based on this, Hoskisson *et al* (1994) observed that only a few studies have shown that market concentration has a negative effect on profitability. They also found that a few studies demonstrated a significant positive relation between profitability and market power. Horizontal acquisitions are more effective when the 'acquiring firm integrates the acquired firm's assets with its assets, but only after evaluating and divesting excess capacity and assets that do not complement the newly combined firm's core competencies' (Hitt *et al*, 2007:206).

A vertical acquisition is a combination of companies that have a buyer-seller relationship (Gaughan, 2002) or a successive process relationship (Cartwright and Cooper, 1996). Moreover, a vertical acquisition occurs when the target is in the same industry as the acquirer, but operating at a different stage of the production chain, either close to the source of materials (backward integration) or to the final consumer (forward integration). Some companies try to gain control over the production process by expanding backwards to the output of the raw material and forwards to the ultimate consumer. One way to achieve this is to merge with a supplier or a distributor (Brealy and Myers, 2003). In vertical acquisitions, suppliers can raise barriers to entry by reducing possibilities for potential competitors to participate at one of the integrated production levels (Bühner, 1991; Harrigan, 1984). Vertical integration facilitates coordination and administration (Sudarsanam, 2003).

Lastly, a conglomerate acquisition takes place when the two organisations are completely unrelated (Gaughan, 2002). This means that conglomerate acquisitions happen when the target organisation engages in dissimilar activities to the acquirer although some functions such as marketing may overlap. These takeovers are often said to lack industrial logic but can lead to economies in the provision of companywide services such as financial economies (Gabrielsen, 2003). Overall, conglomerate acquisitions raise monopoly power and barriers to entry (Bühner, 1991; Trautwein, 1990).

2.3 Merger and Acquisition Waves

In order to improve the understanding of acquisitions, both past and current trends should be identified. M&As have been a feature of the last 100 years or more and it seems that acquisitive activity often occurs in waves (Hunt and Downing, 1990; Gärtner and Halbheer, 2004). Six waves of acquisitions have been identified, with two of the most significant ones occurring in the mid-80s and the late 90s and have been referred to as 'merger mania'. Sudarsanam (2003) stated that the wave phenomenon is quite striking as when it occurs, it happens in bursts interspersed with relative inactivity. What triggers those waves and how they suddenly appear and why they subside is not fully understood, although several possible contextual explanatory factors have been identified (Shrivastava, 1987). It could be argued that the character of M&As waves is also crucially dependent on political, regulatory, institutional and demographic changes.

One major study that analysed and tried to provide a rationale of the M&As waves was the study by Gort (1967), who argued that M&As are often prompted by a shock such as a change in technology or an introduction of a new initiative. Harford (2005) argued that M&As waves occur in response to specific industry shocks that require large scale reallocation of assets. When the introduction and diffusion of an invention, for instance, changes how a firm should be organised, those that realise this first or that can implement the change best, may be outsiders (Baker, 1992; Gort, 1967). This means that if a firm develops a new product or service but does not have the capabilities to channel this innovation, it usually merges with another corporation that will provide the expertise and knowledge or even the financial resources to do so.

Gort (1967) explained that M&As are a means by which capital, physical or human, finds its highest valued use. In his theory, the economic disturbance theory of M&As waves, he argued that they occur when an increase in economic activity creates disequilibrium in product markets. This means that the profitability and the financial position of companies in the market is strengthened resulting in the pursuit of diversification strategies (Harford, 2005). In this case, investors hold a more positive expectation of future demand than others and value target firms higher (Jovanovich, 1998). M&As result from attempts to take advantage of such valuation differences. However, these M&As waves could be subject to wider influences. It is also plausible that an embryonic M&As wave creates new, or reinforces existing, economic disequilibrium (Sudarsanam, 2003). Based on this argument, it could be said that in some cases firms undertake M&As in anticipation of changes of great importance. For instance, many European firms carried out M&As in the late 1980s in anticipation of the Single Market in the E.U. from 1992 so as to position themselves for competitive advantage in the new market (Sudarsanam, 2003).

There have been six major waves in the history of economic activity in the U.S. *The first wave* occurred after the Depression of 1883, peaking between 1898 and 1902 and ended in 1905 (Gaughan, 2002). The first peak was reached in a period of economic expansion following a decade of economic stagnation (Sudarsanam, 2003). The major characteristic of this wave was the simultaneous consolidation of producers within industries, thus qualifying for the description of horizontal consolidation. Because of its horizontal nature, this wave caused a surge in industrial stocks and resulted in the creation of monopolies (Harford, 2005).

The second wave was smaller than the first but still it involved almost 10% of the economy's assets and while the first wave was termed 'merging for monopoly', this second wave was termed 'merging for oligopoly' (Gaughan, 2002; Sudarsanam, 2003). It followed the 1903-1904 market crash and the First World War leading to stronger antitrust enforcement. Market monopolies were characterised as illegal as they impeded the competition and were contrary to the consumer's interests. This wave accompanied economic growth and stock market boom (Kitching, 1967). However, it collapsed in 1929 with the stock market crash positioning many of the merged firms in bankruptcy (Sudarsanam, 2003).

The third wave was mainly influenced by the increased economic activity in the end of the Second World War. In addition, new regulations such as the antitrust law were enforced and allowed for more acquisitions in different industries. This wave aimed at achieving growth through diversification into new product markets (Sikora, 1995). The third wave resulted in a strategic fit in the business composition of U.S. firms towards greater diversification and therefore, it was described as merging for growth (Palmer and Barber, 2001; Sudarsanam, 2003).

The fourth wave started in the mid 80's and was described by many academics as the wave of merger mania (Carper, 1990; Denis *et al*, 1997; Loderer and Kenneth, 1992). The 1980s boom was a form of unwinding of the earlier conglomerate acquisitions wave of the 1960s (Brush, 1996). Lubatkin *et al* (1997) found that there was a similarity in the distribution of M&As types during this wave. It was observed that many U.S. companies not only made numerous acquisitions but also sold off some of their component business in a move towards increasing the focus of their business in which they judged themselves to have a competitive advantage (Carper, 1990; Sudarsanam, 2003). Shleifer and Vishny (1991) described the initial conglomerate expansion and subsequent return to the core business as a 'round trip'. This wave is characterised by hostile takeovers and corporate raids (Holmstrom and Kaplan, 2001).

The fifth wave (1996-2001) focused on core competencies as the source of competitive advantage. Firms made acquisitions on the basis of need to augment their resources and capabilities in order to enhance their competitive advantage (Whitford, 1997). During this wave, the emergence of new technologies such as the Internet, cable television and satellite communication, influenced the market and led to the materialisation of new industries and firms with new technological capabilities (Sudarsanam, 2003). This wave was mostly influenced by policy makers and regulatory bodies such as NAFTA and WTO, which lowered the barriers to trade and capital mobility and increased the opportunities for corporate growth (Sudarsanam, 2003). Kosnik and Shapiro (1997) explained that this wave was driven by the growing need to cut costs as well as increased technological change, deregulation and global competition.

The sixth wave started in 2002 and reached unprecedented levels in 2006. Among the principal factors influencing this wave are: globalisation, encouragement by governments of some countries to create strong national or global champions, the rise in commodity prices and the tremendous growth of private equity funds with a concomitant increase in management-led-buyouts (Lipton, 2006). Continuous deregulations of industries such as banking and utilities as well as privatisation of public sector enterprises have also been attributed to the increased number of acquisitions (McNamara *et al*, 2008).

2.3.1 Acquisition activity in the European Union

Although the acquisitive activity in Europe has not reached comparable high levels as in U.S., the E.U. member countries have experienced increasing levels of takeover activity since 1984. Three major waves can be identified in the economic history of the E.U., a small one during 1984-1992, a bigger wave between 1995-2000 (Gärtner and Halbheer, 2004) and the current one 2001-present.

The late 1980s and 1990s have been epochal and turbulent times in the economic history of the E.U. This was a period of continuous changes with newer and more overconfident initiatives being taken in the spheres of politics, economics and the social institutions to further European integration (Sudarsanam, 2003). Among them are the Single Market Initiative and the European Monetary Union project with the introduction of a single currency, the euro, from 1999. The economic changes were also accompanied by the spread of deregulation and privatisation by member states to improve the competitiveness of the E. U. economies. In various E.U. countries, deregulation has led to rationalisation of the business networks, partly through domestic M&As (Dermine, 1996). The introduction of the euro led to the consolidation of many European industries (Sudarsanam, 2003).

Moreover, the diffusion of technology in information, telecommunications and biotechnology industries provided new growth opportunities, which E.U. corporations sought to exploit through M&As. According to MergerStat (2006) the highest level of acquisition in the European Union was observed in Germany and in the U.K. Many new sectors in the U.K. were privatised, for instance, utility companies such as water, electricity and gas. Further deregulation of the telecom industry took place, increasing pressure on the main player to restructure (Sudarsanam, 2003). Table 2.1 presents the total number of domestic and cross-border acquisitions completed by U.K. firms.

Table 2.1: Acquisition activity in the U.K.

Year	Number of domestic acquisitions	Value of domestic acquisitions (£bn)	Number of cross-border acquisitions	Value of cross-border acquisitions (£bn)
1999	493	26,2	590	111,2
2000	587	107	557	181,3
2001	492	29,1	371	41,5
2002	430	25,3	262	26,6
2003	558	18,7	243	20,8
2004	741	31,4	305	18,7
2005	769	25,1	365	32,7
2006	777	28,5	398	36,2
2007	825	26,3	441	58,1

Source: National Statistics (2008)

Table 2.1 highlights that there is a fluctuation in the acquisition activity in the U.K. with companies engaging in both domestic and cross-border acquisitions. This fluctuation in acquisition activity in the U.K. is consistent with the M&As waves that occurred globally. The second wave reached its peak in 2000 with 587 domestic deals and 557 cross-border deals. In the third wave (2001-2008) there is increased acquisition activity in the U.K. This can be attributed to a number of factors. Globalisation and the advancement of technology as well as market saturation and fragmentation in most industries have altered the rules of the competition game. Companies, nowadays, should focus on gaining access to new dynamic capabilities, gain access to new markets in order to increase their competitiveness and enhance their market share and performance. Hitt *et al* (2007) as well as Risberg (2003) stressed the importance of dynamic and innovation capabilities in organisations in order to achieve competitive advantage. Barney (2001) highlighted that companies should focus on the resource based view of the firm developing or acquiring resources that will enable them to achieve increased competitiveness. Acquisitions in this case, seem the plausible solution to the intensified competition in industries. From horizontal acquisitions to vertical integrations, companies are seeking ways to minimise their costs, achieve greater innovativeness and strengthen their position in the market to adapt faster to changes of the external environment dynamics.

2.4 Motives for acquisitions

Most researchers agree that corporate acquisitions are a complex set of phenomena forced by various patterns of acquisition motives and that no single theory can give a comprehensive account (Steiner, 1975; Ravenscraft and Scherer, 1987). The motives of an acquisition lie principally on the economic and financial gains and then on strategic growth. Martin and McConnell (1991) identified that there are two broad categories for value maximising corporate acquisitions. The first is synergistic acquisitions, where takeover benefits are realised through efficiency gains from combining the operational units of the acquirer and the target. The second category is a disciplinary acquisition, where takeover benefits are achieved by replacing the target firm's senior management team in order to improve operating strategies. It could be argued that the former motive is concerned with financial gains and the latter with achieving organisational growth. The review of the literature revealed that there is a taxonomy regarding acquisition motives. One part represents the finance literature with the financial motives and the other the strategy literature with the strategic motives for an acquisition. An overview of these motives is presented in table 2.2.

Table 2.2: A taxonomy of acquisition motives

Financial Motives	Strategic Motives
Synergy/ Efficiency Theory	*Achieve Economies of Scale and Scope*
(Angwin, 2007; Berkovitch and Narayanan, 1993; Gabrielsen, 2003; Marks and Mirvis, 2001; Martin and McConnell, 1991; Seth *et al*, 2000; Trautwein, 1990; Walter and Barney, 1990)	(DiGeorgio, 2003a; Habeck *et al*, 2000; Hitt *et al*, 2007; Trautwein, 1990; Walter and Barney, 1990)
Agency Theory	*Expand Current Product Lines*
(Amihud *et al*, 1990; Berkovitch and Narayanan, 1993; Blackburn *et al*, 1990; Jensen, 1986; 1988; Seth *et al*, 2000; Shleifer and Vishny, 1989)	(Bergh, 1997; Bower, 2001; Hitt *et al*, 2007; Ranft and Lord, 2002; Walter and Barney, 1990)
Valuation Theory	*Access to Distribution Channels*
(Ravenscraft and Scherer, 1987; Seth *et al*, 2000; Steiner, 1975; Trautwein, 1990)	(Hitt *et al*, 2007; Sudarsanam, 2003)
Hubris/ Empire Building Theory	*Gain Market Power/ Monopoly Theory*
(Angwin 2007; Arnold and Parker, 2007; Berkovitch and Narayanan, 1993; Hayward and Hambrick, 1997; Kale *et al*, 2003; Kroll *et al*, 2000; Roll, 1986; Seth *et al*, 2000)	(Bower, 2001; Chatterjee, 1985; Jensen 1988; Hitt *et al*, 1996; Porter, 1985; Trautwein, 1990)
Disturbance Hypothesis	*Innovation, Access to new Capabilities*
(Gort, 1967; Hitt *et al*, 2007; Trautwein, 1990; Walter and Barney, 1990)	(Ajuha and Katila, 2001; Bower, 2001; Ernst and Vitt, 2000; Hitt *et al*, 1991; 2007; Valentini, 2004)
	Overcome Industry Overcapacity
	(Birkinshaw *et al*, 2000; Bower, 2001; Datta and Grant, 1990; Trautwein, 1990)
	Overcome Barriers to Entry
	(Bower, 2001; Hitt *et al*; 2007; Walter and Barney, 1990)

The taxonomy of the motives, presented in table 2.2 demonstrates that acquisition motives have been studied from the financial and strategic perspective. It should be pointed out that only few studies (see Trautwein, 1990; Walter and Barney, 1990) have assessed the impact that both financial and strategic motives have on the subsequent acquisition performance at the same time. There is segregation in the literature as academics only study the motives for an acquisition from their own theoretical background without considering the motives from the other theoretical perspective. However, Angwin (2007) argued that acquisitions occur to fulfil both types of motives and therefore, they should be studied simultaneously. This will result in better assessment on the impact of motives on the post-acquisition organisational performance.

2.4.1 Financial Motives

Five major financial motives have been advanced in the literature as presented in the above table. The synergy motive implies that acquisitions occur because of economic gains that result by merging the resources of two firms (Bower, 2001). This motive suggests that managers of targets and acquirers maximise shareholder wealth and would engage in takeover activity only if it results in gains to both shareholders (Martin and McConnell, 1991). The notion for this motive is based on efficiency theory (Trautwein, 1990) which assumes that M&As are planned and executed to achieve three types of synergies, financial, operational and managerial. This motive focuses on synergies and enhanced efficiency by creating value to the combined organisation, hence, it assumes that the measured gains to both shareholders would be positive (Angwin, 2007; McNamara *et al*, 2008). However, recent research (Gabrielsen, 2003; Marks and Mirvis, 2001; Tuch and O'Sullivan, 2007) has shown that this is not always the case, as findings have reported that acquisitions do not always maximise the wealth of the shareholders, especially for the acquiring firm's shareholders. The synergy motive follows that if the target has some bargaining power, either because it can resist the acquirer or because there is competition among potential acquirers for the target, then the target gains increase with the total gain (Berkovitch and Narayanan, 1993; Limmack, 2003). Finally, this motive assumes that if acquisitions are motivated by synergy, gains to the target and the acquirer and the total gain will be positive and positively correlated with each other.

The agency motive suggests that acquisitions occur because they enhance the acquiring firm's management welfare at the expense of their respective shareholders. This motive maintains that acquisitions are pursued to increase manager's utility through control of larger empires, resulting in higher pay levels and bonuses (Arnold and Parker, 2007; Eisenhardt, 1989; Wright *et al*, 2002). Amihud *et al* (1990) argued that this discrepancy transpires due to the diversification of management's personal portfolio, whereas, Jensen's (1986) view lies on the use of free cash flow to increase the size of the firm. Shleifer and Vishny's (1989) examination concluded that the acquiring assets can increase the firm's dependence on the management. The basic idea that underlies this motive is that acquisitions result in the extraction of value from the acquirer's shareholders by the acquiring management (Berkovitch and Narayanan, 1993; Sharma and Ho, 2002).

Moreover, agency theory suggests that there exists a strong external constraint on executive actions. These actions do not enhance value and tend to lead to reductions in share prices (Blackburn *et al*, 1990; Kosnik and Shapiro, 1997; Seth *et al*, 2002). Therefore, this will result in agency costs that will reduce the total value of the combined firm available to shareholders. Jensen (1988) refers to this motive as managerial myopia, arguing that managers have been pressurised to undertake needed structural changes to compete and adjust to the market competition that they are capable of sacrificing long-term benefits to increase short-term profits. Agency motive entails that managers are primarily concerned with their own benefits without considering the returns to shareholders making them myopic by undervaluing future cash flows and overvaluing current cash flows (Croson *et al*, 2004; Jensen, 1988; Limmack, 2003).

The third motive, the valuation theory, argues that M&As are planned and executed by managers who have better information about the target's value than the stock market (Ravenscraft and Scherer, 1987; Steiner, 1975; Trautwein, 1990). The bidding managers may have unique information about possible advantages to be derived from combining the target's businesses with their own (Datta *et al*, 2001; Trautwein, 1990). This hypothesis conflicts with that of an efficient capital market. It has been argued that these two are not compatible because the latter only requires that all publicly available information is incorporated in the stock price (McNamara *et al*, 2008; Ravenscraft and Scherer, 1987). The validity of this theory is problematic since capital market participants cannot fully evaluate the information on which a bid is based. 'What is more fundamental, even the bidder cannot do so' (Trautwein, 1990:287). However, there is widespread evidence that bidders justify their actions in terms of the valuation theory, that they possess information unknown to the capital markets as the principal objective of the acquisition (Parker, 2008). Research has shown that acquisitions based on this motive do not always generate the intended results (Trautwein, 1990).

The hubris hypothesis is based on the managers' mistakes in evaluating target firms and engaging in acquisitions even where there is no synergy (Seth *et al*, 2002). Valle (1998) argued that the hubris hypothesis implies that the decision to acquire another firm is based on the perceptions of the chief executive officer and how successful the acquisition will be under his management rather on the target firm's financial performance. According to Kroll *et al* (2000) the sources of hubris are narcissism, series of succession, uncritical acceptance of accolades and exemption from the rules. Therefore, this motive lies on the fact that managers engage in acquisitions only when they overestimate the value of the synergy and since the synergy is presumed to be zero, the payment to the target represents a transfer between the target and the acquirer (Hayward and Hambrick, 1997). This hypothesis is based on the assumption that the higher the target gain, the lower the bidder gain and that the total gain is zero. Equally, the target and acquirer gains are negatively correlated; the target and total gains are uncorrelated (Cartwright and Schoenberg, 2006; Roll, 1986). This can be explained by the negative relationship between the synergy motive and hubris hypothesis as well as by the negative relation between ownership and the total wealth created by acquisitions (Kale *et al*, 2003). This motive proposes that bidding managers make honest mistakes when evaluating target firms and judging the value of the combined firm, but proceed with the M&As assuming their valuations are correct (Arnold and Parker, 2007). While the synergy motive results in a positive correlation between target and acquirer gains, hubris leads to a negative correlation. Lastly, the problem of overpayment is linked with the possibility that managerial hubris will undermine the process of integrating the acquired and acquiring firms (Kroll *et al*, 2000; Parvinen and Tikkanen, 2007).

The final motive in the finance literature is the disturbance hypothesis. As discussed in the previous section, acquisition activity is evident in waves. According to Gort's (1969) theory these waves are caused by economic disturbances. These contextual factors may include high economic growth, recovery from an economic downturn, rising stock market, the introduction of new technologies, geopolitical instability and corporate liquidity (Buehler *et al*, 2005; Hitt *et al*, 2007; Sharma and Ho, 2002). These waves cause changes in individual expectations (Trautwein, 1990) and increase the level of uncertainty, therefore, increase the level of acquisition activity. Disturbance hypothesis has moved on to include the managerial tactics and strategies in response to the changes to their external environment. It represents the managers' reactions to a changed environment (Walter and Barney, 1990).

2.4.2 Strategic Motives

In addition to financial motives, there are strategic motives explaining the reasons managers engage in acquisitions. Acquisitions are viewed as a strategic option to enhance the competitive advantage of the firm and to pre-empt competitors from enhancing their competitive advantage to their own detriment. Moreover, acquisitions are used as a tool to gain access to new channels of communication and distribution, to gain entry into new market either home or abroad and to access new technologies, new competencies or managerial talents (Hitt *et al*, 1996; Sudarsanam, 2003).

Apart from the financial and economic gains that drive acquisitions, the external environment that the organisation operates in can also influence acquisitions. Jensen (1988) states that acquisitions occur because changing technology or market conditions require major restructuring of corporate assets and it is easier for top management to make such changes. DiGeorgio (2003a) also observed that managers believe that acquiring is faster than creating internally through organic growth. Therefore, acquiring an organisation which will provide additional resources and skills is often the most suitable strategic approach to achieve organisational growth and competitive advantage. It could be argued that to compete in the new global economy, scale and scope are needed (DiGeorgio, 2003b). This means that gaining clear economies of scale is the strategic rationale and the main economic focus of the acquiring company. Nonetheless, these M&As arise mostly in mature industries (Bower, 2001). They are aimed at reducing unit costs or excess capacity in highly competitive and often deregulated environments such as steel or heavy machinery, banking, or utilities (Angwin, 2007). Approximately 70% of all current M&As fall into this category (Habeck *et al*, 2000).

Although the major motives behind an acquisition are principally the same, the external influences that the organisations face diverge according to the variations of the socio-economic and technological environment in which they operate. For instance, in the 80's M&As deals were primarily a financial transaction aimed at gaining control of an undervalued asset, which was then often resold or left to stand alone as an independent entity (Angwin, 2007; Ebeling and Doorley, 1983). The target was often a dissimilar industry, or a business line distinctly separate from the acquirer's main business. Today, the typical merger or acquisition is quite strategic and operational in nature. Executives may be buying an installed customer base as well as new and better distribution channels or access to geographic markets. They are buying an organisation's competencies and an infusion of talent that leverage and extend strategic opportunities and they are gaining control over competitor's products and services. They are also consolidating business units or industries in a down cycle, to increase revenue and share price (Datta and Grant, 1990; Hitt *et al*, 1998).

Acquisitions, also, occur to broaden current product lines and to diversify. In industries characterised by rapid innovation, technological complexity and reliance on highly specialised skills and expertise, the pace and magnitude of technological change, as well as the breadth and depth of knowledge-based resources required to compete, may not allow firms to internally develop all the products and capabilities they need to stay competitive (Hitt *et al*, 2007; Kotabe *et al*, 2007; Ranft and Lord, 2002). Acquisitions are seen as the quickest way to change a firm's product portfolio (Bergh, 1997; Heeley *et al*, 2006). These acquisitions tend to increase the profitability of the company as they get more market coverage through the extended product line and access to more customers. These acquisitions, also, lower the risk of developing a new product. However, it should be noted that acquisitions which increase the product portfolio are more successful when they are related than unrelated (Bower, 2001; Hitt *et al*, 2007).

Acquisitions also reduce the risks of entering a new geographical market as they lower barriers to entry. Barriers to entry are associated with the market or with the firms currently operating in it that increase the expense and difficulty faced by new ventures trying to enter the particular market (Brouthers and Brouthers, 2000; Hitt *et al*, 2007). Companies that operate in this market might have already established economies of scale and hence, acquisition of an established company seems more effective and profitable than entering the market, providing immediate market access (Bower, 2001). Hence, acquisitions are the only way to enter a geographical market due to existing market regulations and distribution channels (Hitt *et al*, 2007; Shimizu *et al*, 2004). Another motive for acquisitions is to gain greater market power. This motive is referred to as monopoly theory (Trautwein, 1990). In this case, firms able to cross-subsidise their products, can aim at simultaneously limiting competition in more than one market and can aim at deterring potential entrants from its market. Such actions are referred to as collusive synergies (Chatterjee, 1986) or competitor interrelationships (McNamara *et al*, 2008; Porter, 1985).

Lastly, innovation is argued to be another motive behind acquisitions. Innovation, either tangible or intangible, is used by organisations as a core strategy to achieve growth and competitive advantage (Ruckman, 2005). The emphasis on innovation and research and development is crucial and vital for the firm to maintain a long-term competitive advantage in the market (Hitt *et al*, 1998). However, it is not always possible for organisations to innovate and therefore, they might lose their competitive advantage and strategic advancement (Ernst and Vitt, 2000; Hecley *et al*, 2006; Ruckman, 2005; Tidd *et al*, 2001). Acquisitions, in this case, seem to be the easiest solution to this dilemma (Vasilaki, 2008). In this sense, an acquisition is often perceived as a substitute for internal or external innovation by the acquirer. They target and plan to acquire a firm that will provide them with the precise resources for continuous improvement and growth. Nonetheless, integrating the capabilities of the acquiring company to the acquired strategic objectives may cause problematic issues about value creation. Hitt *et al* (1991) reported that if managers use acquisitions as a substitute for innovation, then in the long-term, both research and development intensity (a measure of input into innovation) and patent intensity (a measure of innovation output) would decline after the acquisition.

Conversely, if an acquisition occurs for enhancement of innovation and careful consideration of the integration process is made, then there might be positive results in the future and innovation output might increase as a result. Ajuha and Katila (2001) and Valentini (2004) found that the ability of the acquirer to leverage technological acquisitions to increase patent output is dependent on a number of characteristics of the acquirer and the acquired company that is the relatedness of the two companies' knowledge bases or their relative size. This finding is similar to Hitt *et al* (1991) who concluded in their research, that diversifying or conglomerate acquisitions have a statistically significant negative effect on patent intensity. This means that managers can use acquisitions as a substitute of innovation only when they are planning for a vertical or horizontal acquisition, acquiring companies in the similar lines of business as theirs (Guardo and Valentini, 2007). Hence, it can be concluded that acquiring for innovation can have both positive and negative impact on organisational practices as well as on the post-acquisition integration.

2.5 Challenges in acquisitions

Academics argue that acquisitions have not lived up to their potential in terms of increasing shareholder value and maximising wealth. Several researchers have found that less than half of all acquisitions meet their initial financial expectations (Covin *et al*, 1996; Bellou, 2007; Eberhart, 2001; Hamel, 2000; Weber, 1996). Similarly, Marks and Mirvis (2001) observed that three out of four acquisitions fail to achieve their financial and strategic objectives. Nonetheless, the reasons, attributed to the failure of the harmonisation of the acquisition and the subsequent performance of the organisation, have been many and quite diverse.

Studies have shown that some acquisitions have had an unfavourable impact on the profitability of the combined organisation (Bellou, 2007; Cartwright and Cooper, 1996; Eberhart, 2001; Vaara, 1999). Despite the financial and strategic considerations in the planning stage of an acquisition, many acquisitions have been regarded as unsuccessful, with acquiring firms exhibiting poor performance and low profits or stock prices. In the past, this lack of post-acquisition success has been attributed to financial, market or other economically driven issues (Hamel, 2000). One of the reasons for failure is attributed to the high premiums and prices acquirers pay for their targets (Sirower, 1997). Organisations operate in an extremely competitive environment and in order to sustain competitive advantage they regard acquiring another company as the most suitable strategic solution to achieve high returns and organisational growth. However, this leads to lower profit in the long run, inability to sustain financial performance and overall failure of the synergy (Abedin and Davies, 2007).

Recent studies, however, point to the belief that human versus financial factors, are among the root causes of acquisition failure (Buono *et al*, 1985; Covin *et al*, 1996; Hamel 2000; Marks and Mirvis, 1998). The degree of failure that has been unexplained has been attributed to human-related problems (Cartwright and Cooper, 1990; Ullrich and Dick, 2007). Restructuring usually involves major organisational changes (such as shifts in corporate strategy) to meet new competition or market conditions, increased use of debt and a flurry of re-contracting with managers, employees, suppliers and customers (Gaughan, 2002). This activity sometimes results in the expansion of resources devoted to certain areas and at other times in contractions involving plant closings, layoffs of top level and middle managers, staff and production workers and reduced compensation. Furthermore, conflict of interest between employees of both firms may lead to loss of key talent and loss of productivity and eventually in the clash of management styles and egos of the two firms (Abedin and Davies, 2007). Reasons such as loss of autonomy, self-interest and conflicting corporate cultures in addition to a lack of inspirational leadership have been attributed as well for causing failure (Haspeslagh and Jemison, 1991; Sitkin and Pablo, 2004).

Furthermore, the strategy factor has also been reported to be a significant influence on the M&As performance. Singh and Montgomery (1987) observed that the rate of success is also dependent on the type of acquisition, the relatedness of both organisations and the strategy that the acquired firm pursued. They found out that the financial gains to the firms were high if the type of acquisition was related rather than unrelated. Shelton's (1988) and Copeland's *et al* (1990) findings also support the argument that acquisitions providing access to related markets create the most value to the shareholders. The findings of the studies observing the relation between strategic fit and acquisition performance are, however, not all consistent. Other studies, Lubatkin (1987) and Chatterjee (1986) did not find any clear pattern of superior performance of the related strategies over the unrelated ones. Therefore, it can be concluded that the strategic fit of the two companies can also be a reason for potential future success of the harmonisation of the process.

An acquisition can also fail as acquirers often fail to plan and execute properly the integration of their targets, frequently neglecting the organisational, internal cultural (Lee and Alexander, 1992) and human factors (Abedin and Davies, 2007). The inability to manage the integration process results in the loss of opportunities for improving the performance by exploitation of the available synergies (Larsson and Finkelstein, 1999). The task of integration or achieving the organisational fit encompasses several aspects. Datta (1991) found a very high correlation between the diversity of the management styles and the poor post-acquisition performance. Thus, the managerial or organisation inability to manage and implement the change, that is, successfully integrating the two organisations can result in poor performance of the company and eventually, in failure to achieve the strategic objectives of the acquisition.

This organisational inability to manage the change process is attributed to the lack of inspirational leadership in the integration process. Haspeslagh and Jemison (1991) argued that problematic leadership as well as lack of implementation skills of the acquiring leader can lead to difficulties in integrating the two organisations. Fubini *et al* (2007) argued that companies fail to acquire integration capabilities in order to achieve the acquisition objectives and this is due to poor leadership. Fubini *et al* (2007) identified four common leadership challenges to be tackled for the achievement of 'corporate acquisition health', the most thorough and sustainable test of acquisition success: communication, integration of the two organisational cultures, becoming an active champion for crucial external stakeholders and continuous learning. Fubini *et al* (2007) stated that if leaders fail to respond to these challenges, then the integration process will be complicated, with culture clashes and conflicts arising and the acquisition will not create the expected synergy. Similarly, Nemanich and Keller (2007) and Javidan *et al* (2004) as well as Waldman (2004) argued that most acquisitions fail to reach their objectives in the post-acquisition integration process due to lack of charismatic and transformational leadership from the acquiring company. Therefore, leadership is a challenge that should be taken into account when designing and implementing the integration process in order to reach the intended benefits of the acquisition.

Researchers have pointed out other contingency factors that contribute to the failure of acquisitions. For example, Kitching (1967) and Hunt (1990) found that the size mismatch between the acquirer and the acquired may considerably enhance the chances of failure rates. Marks and Mirvis (2001) stated that buying the wrong company, paying the wrong price and making the deal at the wrong time are factors that may contribute to failure. Other factors cited are the number of bidders, failures in proper screening of potential candidates, the industry that the organisations operate in, the region and other macroeconomic conditions such as the impact of gross domestic product and exchange rates (Buehler *et al*, 2005; Copeland *et al*, 1990; Haunschild *et al*, 1994). Overall, the majority of acquisitions fail because of the poor integration of their management structures (Larsson and Finkelstein, 1999), the failure to address cultural differences (Stahl and Voigt, 2008) and poor communication (King *et al*, 2008) as well as matters that ought to be prevented with a clear vision, due diligence and charismatic leadership (Haunschild *et al*, 1994).

2.6 Challenges in Cross-border Acquisitions

Cross-border acquisitions have become the dominant means of internationalisation, accounting for the majority of all foreign direct investment inflows (Hopkins, 1999). It was discussed in previous sections that cross-border acquisitions provide companies with further opportunities for expansion and access to new materials, customer bases and for broadening their market share and product portfolio resulting in increased competitiveness (Nachum and Wymbs, 2005). This section will analyse the dynamics that exist in cross-border acquisitions. In their review of cross-border M&As, Shimizu *et al* (2004) identified three theoretical perspectives in the literature: (a) mode of entry in a foreign market, (b) dynamic learning process from a foreign culture and (c) value-creating strategy. These three foundations will be discussed below.

The mode of entry into a foreign market has become an imperative issue in international research and has crucial implications for competitive advantage (Madhok, 1997). There are two main entry modes in the literature: the equity based and the non-equity based modes (Brouthers and Brouthers, 2000; Harzing, 2004). The equity mode of entry entails that the local enterprise is either partially or wholly owned, whereas the non-equity entry modes include exporting and licensing (Harzing, 2002). The choice of cross-border acquisitions as a mode of entry into a foreign market is often influenced by firm-level factors, industry-level factors and country-level factors (Davis *et al*, 2000; Shimizu *et al*, 2004). The firm-level factors include multinational experience, product diversity and international strategy (Barkema and Vermeulen, 1998; Brouthers *et al*, 2003; Harzing, 2004). The industry-level factors and the country-level factors involve market growth, culture idiosyncrasies between the home and the host country (Brouthers *et al*, 2003; Shimizu *et al*, 2004), institutional and governmental factors (Brouthers and Brouthers, 2000; Davis *et al*, 2000; Hennart and Reddy, 1997) as well as low cultural distance and low uncertainty avoidance between the home and the host countries (Hofstede, 1998). Brouthers and Brouthers (2001) found that some organisations associate cultural distance with choosing wholly owned modes of entry, while others find cultural distance associated with a preference for a joint venture or acquisition. Similarly, Chen (2008) found that these factors will influence companies to start a greenfield entity or to acquire an existing organisation in the geographical market they want to enter.

However, Shimizu *et al* (2004) stated that scholars have reported mixed results on the relationship between the mode of entry in a foreign market and the subsequent performance of acquisitions. Barkema and Vermeulen (1998) found that multinational experience as well as product diversity and product relatedness create opportunities for learning and for strengthening technological capabilities. However, these capabilities increased the propensity of the firm to set up new ventures in foreign countries rather than to acquire existing companies. Slagen and Hennart (2008) argued that cultural factors also affect this choice. They found that companies prefer to enter culturally distant countries through greenfields, but this preference is lower when they have little international experience. Some other researchers such as Shimizu *et al* (2004) found that those factors had no effects on the entry mode choice. Shimizu *et al* (2004) concluded that more dynamic and longitudinal perspectives are needed to expand the scope of entry mode research.

Vermeulen and Barkema (2001) argued that acquisitions can help revitalise acquiring firms and thereby foster their long-term survival. The revitalisation potential stems from the opportunity to learn new knowledge and capabilities mostly evident in cross-border acquisitions (Barkema and Vermeulen, 1998; Hitt and Pisano, 2004). This new knowledge may come from new product or processes, technologies or from managerial practices and capabilities. Similarly, Chen (2008) found that companies engage in cross-border acquisitions to procure complementary capabilities from indigenous firms. Very and Schweiger (2001) described acquisitions as a learning process, emphasising the potential learning opportunities of cross-border acquisitions. Bresman *et al* (1999) found that knowledge transfer should occur for the cross-border acquisition to create value. Likewise, Kotabe *et al* (2007) found that the transfer of knowledge in cross-border settings is linked with improved innovative firm performance. Yet, Bhagat *et al* (2002) mentioned that national culture will moderate the effectiveness of knowledge transfer.

Closely linked with acquiring new knowledge is the opportunity to access valuable and complementary resources in the acquired firm (Hitt *et al*, 2001). This is particularly relevant when entering new international markets. Anand and Delios (2002) found that organisations engage in cross-border acquisitions in order to acquire upstream (technological) and downstream (marketing) capabilities that will complement their existing portfolio of resources. Harrison *et al* (1991) found empirical support for the notion that acquiring different but complementary resources had positive effects on the acquiring firm's performance. Cross-border acquisitions can provide access to new knowledge, new technology and new markets which can be valuable to the acquiring firms. In this case, cross-border acquisitions provide an opportunity to obtain and internalise valuable and unique resources that complement a firm's own resource base (Hitt *et al*, 2001). Buyers choose acquisitions because they seek complementary assets (Chi, 1994). Anand *et al* (2005) found that the geographic scope accounts for resource transfer and capability improvement following acquisitions and reported that multinational targets provide additional sources of value creation by drawing on national differences and diverse environments. However, Madhok (1997) found that this value creation is also dependent on the relatedness of new flows of knowledge through current strategies to the existing stock of knowledge. This means that although diversity and differences will enhance the performance of the acquisition, some relatedness of the resources that the acquirer and target organisations deploy is also necessary for the enhancement of the acquisition performance.

Shimizu *et al* (2004) mentioned that the theoretical foundation for positive returns from cross-border acquisitions is based on the assumption that firms enter foreign markets to exploit the firms' specific resources and to take advantage of the imperfections in the markets. However, empirical studies draw attention to the mixed performance record of such acquisitions (Schoenberg, 2004). While some researchers have reported that cross-border acquisitions create marginally positive abnormal returns for the shareholders of the acquiring firm (Seth *et al*, 2002), others have found negative shareholder wealth effects (Datta and Puia, 1995). Academics have attributed the conflicting results on the motives for the acquisition (Angwin, 2007; Hitt and Pisano, 2004; King *et al*, 2008; Seth *et al*, 2000). This means that acquisitions may fail because of the weaknesses of their motives. The agency motive implies that the acquisition is based on managerial motivation rather than shareholder orientation (Seth *et al*, 2000). This might have negative implications for the success of the acquisition as the interests of managers and shareholders might clash in the long-term causing managerial and integration problems. Likewise, the hubris hypothesis may result in an inadequate evaluation of the target and in the unrealistic expectations of the management. In order to reach the acquisition's objectives Seth *et al* (2002) highlighted that the motives chosen for the acquisition should aim at creating value and enhancing synergy realisation. However, the creation of value and synergy realisation is an area that is controversial in nature as in both domestic and cross-border acquisition research there is no consensus or consistency of what accounts for increased wealth creation and synergy realisation (Laamanen and Keil, 2008; Seth *et al*, 2000).

It could be argued that the dynamics of cross-border acquisitions are largely similar to those of domestic acquisitions. However, due to their international nature, they also involve unique challenges, as countries have different economic, institutional and cultural structures (House *et al*, 2004). Stahl *et al* (2004) argued that cross-border M&As are less successful than domestic transactions. Angwin and Savill (1997) indicated that cross-border acquisitions are riskier than domestic ones. One of the major challenges in cross-border acquisitions is that of the post-acquisition integration. The greatest issue in the post-acquisition integration is the potential culture problem referred to by Barkema *et al* (1996) as double-layered acculturation. Double-layered acculturation is necessary because of the separate corporate cultures and national cultures represented in the two firms. The literature points to the fact that acculturative stress is more likely to occur in cross-border acquisitions than in domestic acquisitions (Teerikangas, 2007; Very *et al*, 1996). The results of acculturative stress can be lower commitment and cooperation by the acquired firm employees and increased turnover of acquired firms' executives. Stahl and Voigt (2008) found that cultural differences in cross-border acquisitions create major obstacles to achieving integration benefits. Schoenberg (2004) argued that understanding organisational fit and culture fit in cross-border acquisitions is subject to the simultaneous influence of both organisational and national culture (Calori *et al*, 1994). In cross-border acquisitions there is a recognised methodological difficulty in separating the individual contribution of national and organisational culture within a given firm (Hofstede, 1991; Lubatkin *et al*, 1998; Olie, 1994; Slagen and Hennart, 2008; Stahl and Voigt, 2008; Teerikangas, 2007). Both national and organisational cultures have been found to have a strong impact on the subsequent acquisition performance (Stahl and Voigt, 2008; Teerikangas, 2007: for a more detailed analysis of the effect of national and organisational cultures on acquisition performance see section 3.3.2.2).

However, there is evidence that in certain circumstances cross-border transactions can be more successful than domestic acquisitions (Cartwright and Cooper, 1996; Krug and Hegarthy, 2001; Morosini *et al*, 1998; Schweiger and Goulet, 2000). Javidan (2002) argued that cultural divergence between the national culture of the acquiring and the acquired firm can be a source of synergy realisation. Hitt and Pisano (2004) found that cross-border acquisitions involve acquiring a diversity of resources and capabilities not available in the home market, thus, increasing the likelihood of value creation in the post-acquisition integration process. Seth *et al* (2002) found that cross-border acquisitions yield higher returns and synergy than domestic acquisitions. Likewise, Anand *et al* (2005) and Altunbas and Marques (2008) reported that shareholders tend to benefit more from cross-border acquisitions, while other studies find no differences between them. Stahl *et al* (2004) argued that the culture distance between the two organisations, both in terms of organisational culture and national culture differences, can be an asset rather than a liability contributing to the enhancement of cross-border acquisition performance. Morosini *et al* (1998) as well as Teerikangas (2007) suggested than firms are likely to learn more new knowledge from businesses operating in distinct and different cultures. It could be argued, for this transition to be achieved, transfer of resources, capabilities and knowledge is imperative between the acquirer and the target organisation. Hence, increasing their knowledge and capability base will in turn, contribute to the success of the acquisition (Bresman *et al*, 1999). Knowledge is one of the most promising sources of a sustainable advantage and is therefore, a logical focus in acquisitions (Coff, 2002).

2.7 Concluding Remarks

This chapter has described, analysed and critically assessed all the factors that influence the acquisitive activity. It referred to the M&As waves and the economic drives that guide acquisitions and it provided a detailed analysis of how acquisition emerged through the various socio-economic dynamics of each era and the impact that the several ways had in shaping the motives of acquisitions and the different strategies that were used for the implementation of the integration process. It also, analysed and assessed the different motives that underlie the success or failure of such a strategic vehicle and evaluated the factors that may lead to acquisition failure when the process is not managed articulately and coherently. The challenges of cross-border acquisitions were also mentioned. Through the analysis of the challenges in acquisitions, it was pointed out that the implementation of the post-acquisition integration process poses the greatest challenge in both domestic and cross-border acquisitions. Post-acquisition integration process and the dynamics that exist in such a process are critically analysed in the following chapter.

Chapter 3:

Post-Acquisition Integration Process: A Review of the Evidence

"All value creation takes place after the acquisition"
(Haspeslagh and Jemison, 1999:105)

3.1 Preamble

An important aspect of the M&As literature is concerned with researching the post-acquisition integration process. Researchers and academics advocated that post-acquisition integration is as an important factor for the success of the deal as the initial stages such as strategic planning and deal negotiation and it provides a thorough understanding of the organisational consequences of the acquisition. Integration serves to coordinate and control the activities of the combining organisations so as to realise the potential of the interdependencies which motivated the acquisition (Shrivastava, 1987). Whether an M&As fails or succeeds depends primarily on the management of the post-integration process (Stahl *et al*, 2005). Furthermore, integration is used to explain the acquirer's demand of the acquired company to fit into an existing organisation culture as well as into different policies and practices that the acquired organisation employs.

Researchers have stressed the significance of the post-acquisition period, which may seem self-evident in the perspective of synergetic benefits, productivity and expansions in the new market (Johansson, 2004, Olie, 1990, Soderberg and Vaara, 2003). Webster (1993) defined integration as forming separate parts to a totality. Johansson (2004) stated that integration as a concept is frequently used and often taken for granted in the context of the study of M&As. Probably the greatest challenge facing acquiring top managers during the implementation stage is how to manage the transition from two organisations to one integrated organisation (Stahl and Voigt, 2008; Schweiger and Weber, 1989). When firms are integrated, different organisational cultures, structures and management systems and processes are brought together. This requires that a process has to be established and decisions have to be made to reconcile such differences so that the synergies planned for can be achieved (Schweiger and Weber, 1989; Stahl and Voigt, 2008). The best laid plans for merging or acquiring do not ensure post-integration success. Post-integration managerial competence, however, is a critical variable to the success of M&As (Stahl *et al*, 2005).

The aim of this chapter is to

- examine the different integration typologies (Section 3.2),
- examine the different schools of thought in acquisition research (section 3.3),
- critically review the literature (section 3.4),
- choose the theoretical background of this study (section 3.5)
- provides the first two hypotheses of this study (section 3.6).

3.2 Integration strategies

The post-acquisition strategies implemented by the acquiring firms can be thought of as critical for the strategic and financial success of the acquisition (Morosini *et al*, 1998). However, studies on the acquisition process have found that a fragmentation of financial, strategic, organisational and cultural analyses leaves the executives involved with different and often competing perspectives on how to put their organisations together (Marks and Mirvis, 2001). Studies on the post-acquisition integration process are reasonably consistent in terms of their conceptualisations of the various approaches used by firms (Ellis, 2004). There are three main typologies used to refer to integration strategies. First, there is the cultural-based perspective of Nahavandi and Malekzadeh (1988). They identified various modes of acculturation based on two primary dimensions from the acquiring firm's perspective: degree of relatedness between the two firms and the degree of tolerance for multiculturalism by the acquiring firm. The various strategies that they identified are separation, assimilation, integration and de-culturation. Second, there is the model of Haspeslagh and Jemison (1991) that has been widely used in academia to describe integration strategies. They took into account the varying levels of the need for strategic interdependence and the need for organisational autonomy following an acquisition. The strategies that they developed, based on a capabilities-contingency model are: preservation, absorption and symbiotic. Third, Marks and Mirvis (1998) discussed several approaches to integration using the degree of post-combination changes as the basis of their classification scheme. They argued that the organisational attributes necessary to successfully manage the integration process are: absorption as well as reverse merger/assimilation, preservation, best of both and transformation. It could be argued that there are apparent similarities among these three models. Figure 3.1 provides a graphical description of the integration strategies identified in these studies.

Figure 3.1: Integration Strategies (Source: Ellis, 2004)

Need for organisational autonomy/ Tolerance for multiculturalism	HIGH	Preservation (H&J) Separation (N&M) Preservation (M&M)	Symbiotic (H&J) Integration (N&M) Best of Both/ Transformation ((M&M)
	LOW	Holding (H&J) De-culturation (N&M)	Absorption (H&J) Assimilation (N&M) Absorption (M&M)
		LOW	HIGH
			Need for strategic interdependence/ Degree of relatedness

The dimensions along the X-axis reflect the need for strategic interdependence and degree of relatedness, the extent to which the two firms involved in the acquisition provide similar products or services and/or target similar customer groups. Higher levels of relatedness between the two firms imply greater strategic interdependence thereby creating the need for more integration of the firms' operations in order to achieve the intended goals of the deal. This in turn leads to significant changes in the acquired firm. The two dimensions on the Y-axis need for organisational autonomy and tolerance of multiculturalism indicate the acquired firm's ability to retain elements of its organisational culture and have continued improvement by its executives in key decision-making activities (Ellis, 2004). Greater autonomy and acceptance of different organisational cultures may result in limited plans to combine operations of the two firms.

Due to the similarities of the three approaches, especially the frameworks of Haspeslagh and Jemison (1991) and Marks and Mirvis (1998), only preservation, symbiotic and absorption strategies are going to be discussed in this chapter. The holding approach will not be considered in this study as it has an absence of integration intention. The *holding approach* has no intention of integrating and creating value through anything except for financial transfers, risk sharing or general management capability (Marks and Mirvis, 2001).

One important dimension in post-acquisition management is the choice of the level of integration of the acquired firm. The degree of post-acquisition integration is conceptualised in the literature as 'the extent to which the functions of the acquired unit are linked to, aligned with, or centralised in the equivalent functions of the acquiring organisation' (Zollo and Singh, 2004:1236). As the acquired firm is integrated more extensively in the acquiring firm, a number of both positive and negative outcomes might be expected. The degree of integration of the target is positively associated with acquisition performance (Saxton and Dollinger, 2004).

Acquisitions that have a high need for strategic interdependence and a low need for organisational autonomy are labelled as likely to adopt an *absorption* approach to integration. Absorption acquisitions are those in which the strategic task requires a high degree of interdependence to create the value expected but has a low need for organisational autonomy to achieve that interdependence. Integration in this case implies a full consolidation of the operations, organisation and culture of both organisations. Absorption strategy is chosen when the acquired company is absorbed by a parent and assimilated into its culture, the lead companies generally bring in new management and conform the target to corporate reporting relationships and regiments (Håkanson, 1995; Marks and Mirvis, 2001). While it may lose its prior autonomy, its activities become increasingly dependent on the parent organisation. The feasibility of this approach is clearly related to the motives of the acquisition as well as to the degree of cultural compatibility between the two organisations. Employing absorption as the chosen integration strategy can have both negative and positive effects on the performance of the acquisition. On the negative side, there can be value destruction as the employees of the acquired organisation will show high levels of resistance whereas, in compatible organisations can lead to synergies (Håkanson, 1995).

Moving on, for the second type of integration approach, Haspeslagh and Jemison (1991) use the term *symbiosis*. The acquisitions which involve symbiosis can be described as having a high need for interdependence and organisational autonomy. In the symbiotic acquisitions the two organisations first coexist and then gradually become increasingly inter-dependent. To succeed in the amalgamating organisations symbiotically, each firm must engage in the original qualities of the other. This coexistence and mutual dependency are slowly achieved despite the tension arising from the conflicting needs for strategic capability transfer and the maintenance of each organisation's autonomy and culture (Haspeslagh and Jemison, 1994). Thus, symbiotic acquisitions have a clear need for both, boundary preservation and, at the same time, boundary permeability (Schweizer, 2005). The overall goal of a symbiotic acquisition is to find a viable way through the need of preserving the acquired company's culture, while, at the same time, encouraging interdependence to fulfil the acquisition purpose.

The third integration strategy is *preservation*. Preservation is the end state where the acquired company faces a modest degree of integration and retains its ways of doing business. This strategy is typically found in diversified firms that promote cultural pluralism among business units (Zollo and Singh, 2004). To succeed, corporate management has to protect its boundary of the subsidiary, limiting intrusions by its corporate staff and minimising conformance to its rules and systems. Strategic synergies generated in a preservative combination come from the cross-pollination of people and work on joint programs (Marks and Mirvis, 2001). The preservation policy is designed to preserve the operational identity and management autonomy of the acquired company (Haspeslagh and Jemison, 1994). The acquired firm is considered the spearhead of a new activity. The acquiring firm's role is then to give the incentive to develop and supply it with the required funding. This relation is also called financial type control (Koening and Meier, 2001). The acquisition policy is designed to pool the resources of the acquiring firm and acquired companies. Economies of scale and rationalization of resources are the advantages usually proclaimed.

Drawing on the model of Haspeslagh and Jemison (1991), Marks and Mirvis (2001) added a new dimension in the matrix called 'best of both'. In this category the best operational practices and strategies of both organisations are kept, developed and integrated to both organisations. Marks and Mirvis (2001:86) argued that although this is the most successful integration, it can be the 'bloodiest' as well. The optimal result of this strategy will be the full cultural integration, the blending of both companies' policies and practices, resulting in an acquisition of equals and easier post-deal integration.

Research on the post-acquisition process has shown that effective integration of operations enhances post-acquisition performance as the combined firm lowers costs by increasing scale economies in production, marketing, distribution and advertising. However, the post-acquisition integration task is extremely complex. As was argued earlier, the post-acquisition integration process is the most critical part of an acquisition and is the key for making acquisitions work.

Since the study of Shrivastava (1987) on acquisition integration, scholars who started to study this process adopted different approach characteristics. Academics have used various disciplines to highlight the dynamics that interact during this process and study the antecedents of an effective integration process that will lead to higher post-acquisition organisational performance. There are four different schools of thought in the M&As literature that are investigating the dynamics of the integration process. These are the organisational behaviour school of thought, the human resources school of thought, the culture school of thought and the process school. These different approaches to the management of the integration process will be evaluated in the following sections.

3.3 Different Schools of Thought in the Post-Acquisition Literature

To assess the different schools of thought a systematic literature review was conducted. The main aim of the systematic literature review was to identify the main dynamics and influences in the study of post-acquisition integration process. The systematic review allows the researcher to synthesise research in a systematic and transparent manner so as to reach conclusions about the gaps in the literature, the proposed methodologies and procedures (Tranfield *et al*, 2003). World leading peer reviewed journals were used for the systematic review. These journals also publish articles on the strategic management field including advancements on the M&As field. To identify these journals databases such as the 'Harzing Dataset' (Mingers and Harzing, 2007) as well as the 'Aston Business School Journal League Tables' were consulted. The systematic literature review covered the years from 1997 to 2007. The articles in these journals and the time period chosen for the review provide the latest thinking in acquisitions and hence, were appropriate for the systematic research. The articles examined provided empirical research that assessed the different schools of thought in the M&As literature. The results of the literature review are presented in table 3.1.

Table 3.1: The results of the systematic literature review

Journal	No.	Journal	No.
Academy of Management Journal	10	Journal of International Business Studies	14
Academy of Management Executive	8	Journal of Management	6
Academy of Management Review	4	Journal of Management Studies	10
Administrative Science Quarterly	3	Management Science	3
British Journal of Management	10	Organization Science	6
Human Relations	10	Strategic Management Journal	21
Journal of Business Research	3	**Total**	**105**

The review generated 105 articles. However, when compared with the financial and economic studies on M&As, this is a limited number of studies researching the organisational, cultural and human resources aspect of the acquisition process. This implies that research on the post-acquisition integration process has not progressed according to the advancement of the field of acquisitions. While in recent years research into the human and psychological aspects of M&As have increased in prominence, the M&As literature continues to be dominated by financial and market studies (Cartwright and Schoenberg, 2006). The systematic literature review revealed that studies regarding the organisational, cultural and human resources aspects of the post-acquisition integration process are few when compared to the number of studies on the financial and market perspective of acquisitions corroborating Cartwright and Schoenberg's (2006) findings. This implies that the literature on this process is still fragmented, leaving gaps that need to be further investigated.

The following sections will assess the four schools of thought drawing from the results of the systematic literature review. In addition, the pioneering studies of academics in this field will be examined and assessed against the advancements in the literature as ascertained from the systematic literature review.

3.3.1 Organisational Behaviour School of Thought

3.3.1.1 Relatedness

One of the most widely shared and enduring assumptions in the strategy formulation literature is that the appropriateness of a firm's strategy can be defined in terms of its fit, match or congruence with environmental or organisational contingencies facing the firm (Venkatraman and Camillus, 1984; Zajac *et al*, 2000). Much of the literature on acquisitions has attributed the source of value creation to relatedness between the acquirer and the target organisations (Lubatkin, 1987). Research on post-acquisition performance has argued that relatedness of the acquisition should enhance post-acquisition performance (Morosini *et al*, 1998; Lubatkin, 1983). Allred *et al* (2005) stressed that lack of relatedness or fitness between the acquiring organisation and the target company will eventually lead to failure of synergy realisation and value creation.

Corporate leaders emphasise the strategic criteria and encourage the acquisition team to search for candidates that fit them (Marks and Mirvis, 2001). Having an open and full review of these criteria allows for debate and consensus building between the two companies (Marks and Mirvis, 2001) and facilitates the integration process, arguably leading to its success. Achieving economies of fitness in an acquisition (Larsson and Finkelstein, 1999) greatly increases the likelihood of selecting a partner that will bring true productive value to combination, rather than one that will just be an acquisition for the sake of doing a deal (Marks and Mirvis, 2001). There are two types of relatedness in the organisational school of thought, (a) strategic relatedness and (b) organisational relatedness.

Scholars have used strategic fit or complementarity to denote the possibility of synergy and organisational fit or compatibility to refer to similarity of management practices.

(a) Strategic Fit

The strategic fit, that is, the complementary resources of the two firms, is seen as the fundamental aspect of reaching synergy (Larsson and Finkelstein, 1999; Homburg and Bucerius, 2006; Hitt *et al*, 1998; Harrison *et al*, 1991; Markides and Oyon, 1998). Strategic fit relates to assumptions of integration. Undergoing a strategic fit analysis is expected to lead to synergies and future value creation. The idea that underlies the strategic fit is the notion of homogeneity on a strategic level after the acquisition. Strategic relatedness refers to business similarity, product complementarity and geographic complementarity.

Business similarity describes the extent to which attributes such as the product-market portfolio or the internal operations of the acquirer resemble the same attributes from the target. Value is created from similarity in M&As through the exploitation of scale economies and the possible exercise of market power (Capron, 1999; Larsson *et al*, 2003). Product complementarity refers to the target's ability to extend the acquirer's domain into additional product lines or technologies that are in some way related to its existing ones. An acquirer may seek to combine its products with that of the target firm to form a single offering that better meets market preferences (Larsson and Finkelstein, 1999) or to combine their complementary technologies to create new products (Hitt *et al*, 2007). Geographic complementarity arises from the addition of non-overlapping geographies in which the acquiring firm is able to achieve cost savings by expanding its footprint into new geographic markets.

The first study assessing strategic fit was conducted by Lubatkin (1983). In his study Lubatkin (1983) signified the importance of strategic fit between the acquiring company and the target organisation. He measured the success of acquisitions according to their relatedness. This implies that the type of acquisition either related or unrelated will determine the degree of success of the implementation process and will lead to favourable returns. He found that some degree of relatedness between the two companies can lead to increased performance results, when compared to unrelated acquisitions. Based on Lubatkin's findings, Shelton (1988) developed four categories of classification to describe how an acquired business changes the product-market capabilities of a bidder firm. The four categories are related-complementary, unrelated, identical and related-supplementary. Shelton (1988) also contended that related acquisitions create more shareholder value than unrelated acquisitions. Harrison *et al* (1991) found that similarities between the firms lead to synergy creation. They argued that similarities in the way that the acquiring and the target organisation are allocating and managing their resources leads to synergies and therefore, enhances the performance of the acquisition.

In the context of M&As, only after the transaction is completed and the integration process gets under way it is possible to begin extracting value from the dimensions of relatedness. The notion of fit can relate to assumptions of integration (Risberg, 1999) as strategic fits are expected to lead to synergies when the two companies are combined. In such a case one expects some kind of homogeneity on a strategic level after the acquisition. Brush (1996) posited that a firm has better chances of identifying opportunities when the target organisation is in the same market arena. Similarly, Carow *et al* (2004) argued that managers are most capable of using their knowledge in deploying undervalued resources if there is a degree of relatedness between the acquirer and the target firm.

There is an underlying assumption that if the acquiring company can only find the perfect matching partner, the companies can be fully integrated and the acquisition will be a success (Risberg, 1999; Jemison and Sitkin, 1986). However, it has been noticed that the results of studies on the notion of fit are not consistent. Chatterjee *et al* (1992) noted that there are almost as many studies finding that fit will increase the acquisition value as those that cannot find any strategic fit effect at all. Napier (1989) argued that the importance of compatibility depends on the motives of M&As. When the acquiring firm leaves the acquired firm alone, because it does not need to integrate cultures and routines, compatibility is not important. In addition, researchers have also pointed to the limited studies that assess the performance of the acquiring firm if it engages in unrelated acquisitive activity, leaving a gap in the acquisition literature.

To overcome the limitations inherent in the operationalising of strategic fit, researchers studied strategic relatedness by looking at the firms' previous acquisition experience and their relative size (Jemison and Sitkin, 1986; Lubatkin, 1983; Singh and Montgomery, 1987). This way of measuring strategic fit proposes that if the acquiring company is often engaged in acquisitive activity, then the outcome of the acquisition is expected to be more positive than if they are inexperienced. It could be argued that organisations learn from their prior experiences. Weber (2000) argued that past experiences provide valuable guidance for integration process of the two combined organisations. This previous experience is positively related with returns on equity (Fowler and Schmidt, 1989), increased performance in the long-term (Bruton *et al*, 1994) and persistence of new acquisitions (Weber, 2000).

As far as the size of the organisation is concerned, Lubatkin (1983) argued that large-scale entries into new ventures are expected to outperform small-scale entries. This argument is also reinforced by Shelton (1988) who stated that larger target firms provide potential scale economies. There is substantial evidence that the potential to create value from M&As depends on relative size (Brouthers *et al*, 2003; Capron, 1999). In the case of high relative size, when the acquired company is almost as big as the acquiring, there is a greater increase in scale than in the case of low relative size. Therefore, there is a greater potential for cost savings through integration in this case. In addition, because organisational size is known to be an important driver of organisational structure, it could be argued that there is more structural similarity between the organisations in the case of high relative size (Homburg and Bucerius, 2005). Seth *et al* (2002) argued that relative size plays an important factor in the firms' choice of cross-border acquisitions. They found that similarities in size between the acquirer and the target can lead to value creation after the acquisition. However, empirical studies on size similarity produced inconsistent results. Singh and Montgomery (1987) showed that the relation was positive in related acquisitions but negative in unrelated acquisitions. Bruton *et al* (1994) did not find any significant relationship between size similarity and performance after the acquisition was completed. Likewise, Lee and Caves (1998) who investigated large cross-border acquisitions found that relative size is not a predictor of post-acquisition organisational performance.

Overall, strategic fit is an important factor that companies should take into account when engaging in acquisitive activity. It was highlighted that undergoing a strategic fit analysis will lead to better and positive results as well as to the harmonisation of the integration process and value creation.

(b) Organisational Fit

While strategic fit has been defined as the degree to which the target firm augments or complements the bidding firms strategy, organisational fit focuses on the match between administrative and cultural practices and how the personnel characteristics between the two merging companies may affect the ways firms can be integrated (Hitt *et al*, 2001; Jemison and Sitkin, 1986; Risberg, 1999). Organisational fit is emphasised mostly by organisational behaviour researchers as important for the acquisitions outcome (Buono and Bowditch, 1989; Datta, 1991; Larsson, 1993a; Napier, 1989; Sales and Mirvis, 1984). Chatterjee *et al* (1992) concluded that both strategic fit and organisational fit are important to create shareholder value in related acquisitions. Still, Datta (1991) and Jemison and Sitkin (1986) claimed that research on organisational fit is limited, fragmented and anecdotal. The literature on organisational fit addresses only the aspects that are applicable and encountered in a single case. Such aspects, according to Jemison and Sitkin (1986) include the impact of acquisitions on individual motivation and productivity and the difficulties encountered in matching firm CEO operating styles or management control systems. Post-acquisition organisation fit relates post-acquisition outcomes to particular organisational features such as structure, matches in corporate management styles, matches in control systems and differences in the willingness of employees of the two firms to adapt to the other's culture and systems (David and Singh, 1994).

The main study concerning organisational fit was conducted by Datta (1991) who asserted that the main variables affecting the organisational integration of the two organisations are differences in management style and differences in reward and evaluation systems. Management style has been described as an element of the managerial or the subjective culture of an organisation (Sathe, 1985 cited in Datta, 1991). Managerial style encompasses a number of factors such as attitude towards risk and uncertainty, change management, decision-making approach and preferred control and communication patterns (Covin *et al*, 1997; Datta, 1991). However, it could be argued that these attitudes and assumptions towards risk and change management and the traits of the managers are unique in a certain single case and cannot be easily copied or transferred in another organisational context making the organisational fit scheme difficult to achieve. The other variable, differences in reward and evaluation systems, is widely regarded as one of the most important components of the organisational form (Datta, 1991; Homburg and Bucerius, 2006; Krishnan *et al,* 1997; Napier, 1989). Reward and evaluation play a crucial part in shaping the company's culture and the changes that are made to the existing system (Datta, 1991; Weber, 2000). Changing the system and altering the organisational through acquisitions can cause significant anxieties and conflicts and may lead to unsuccessful post-acquisition integration process.

3.3.1.2 Previous Acquisition Experience

Acquisition capability can be developed through past related experience (Cohen and Levinthal, 1990). Prior experience provides opportunities for the firm to learn about issues that could arise in acquisitions and to develop routines and strategies to deal with issues (Hayward, 2002). Experience from past acquisitions, at the organisational level, may build facilitating processes for the identification and integration of target firm resources that may be required to improve post-acquisition performance (Haspeslagh and Jemison, 1991). Experience with acquisitions makes firms more flexible and more able to adapt to varying circumstances (Hitt *et al*, 1998). Experienced acquirers would be better able to quickly move through the negotiation phase and normal integration concerns to focus on the special problems of the distressed assets (Bruton *et al*, 1994). Beckman and Haunschild (2002) found that previous acquisition experience affects economic action by increasing post-acquisition organisational performance. Shaver (2006) argued that previous acquisition experience leads to better acquisition results as managers are familiar with implementing an acquisition and they are capable of effectively assessing, valuing and managing this strategy. Nachum and Wymbs (2005) as well as Reuer *et al* (2004) found that previous acquisition experience also influences the organisations' choice for cross-border acquisitions. In cross-border acquisitions previous acquisition experience will enable firms to experience lower levels of risk (Reuer *et al*, 2004) as well as make more informed decisions in the geographic market they expand to (Nachum and Wymbs, 2005).

The learning effect has been studied widely in various contexts. Scholars argued that firms develop routines and capabilities from past experience, which enable them to deal with similar situations and contingencies in the future (Anand and Khanna, 2000). Because of this learning effect, a firm with more prior experience (both as an acquirer and as a target) is more likely to have a stronger capability to extract value in future acquisitions. Haleblian and Finkelstein (1999) examined the effects of organisational acquisition experience on acquisition performance, using behavioural learning theory to understand this relationship. Their results demonstrated that experience may not necessarily yield positive consequences. Rather, it interacts with other antecedents conditions, such as relatedness between the two organisations, and it may vary from positive to negative when these factors are taken into consideration. Vermeulen and Barkema (2001) found that organisations may learn from the companies they acquire and this learning has a positive relationship with organisational behaviour.

Rovit *et al* (2004) found that the companies most successful at creating long-term shareholder value tend to be frequent, steady acquirers that maintain a constant program of transactions throughout both economic busts and boom times. These frequent buyers are able to outperform those that acquire less frequently because they have learned from experience. The frequent acquirers build an organisational capability and institutionalise M&As processes to help ensure the deal fever does not overwhelm rational decision-making.

However, the literature on learning from acquisitions shows inconsistent results (Barkema and Schijven, 2008). On the basis of empirical research, it is unclear whether there is a significant learning effect, that is, whether more experienced companies have a higher probability of success when acquiring other companies. Greenberg *et al* (2005) and Bjorkman *et al* (2005) suggested that there is a learning effect, and there is some evidence that previous experience tends to influence subsequent M&As and their performance (Finkelstein and Haleblian, 2002; Hayward, 2002). However, the meta-analysis by King *et al* (2004) as well as research conducted by Zollo and Singh (2004) found that prior acquisition experience by the acquiring firm was not significant in explaining variance in post-acquisition performance. Contradicting these results, Nadolska and Barkema (2007) found that experience with foreign and domestic acquisitions initially decreases foreign acquisition success, but increases success at greater levels.

One explanation why experience is not a crucial predictor of M&As success is that learning is related to the quality rather than the quantity of a firm's experience (Hayward, 2002). Organisational learning is an iterative, dynamic process in which firms engage in experiences, draw inferences from them and store the inferred material for future experience (Levitt and March, 1988). Yet, learning does not necessarily benefit firms

(Hayward, 2002). On one hand, experience allows firms to learn how to become more efficient at clearly defined problems. On the other, there are numerous conditions in which these effects may not materialise (Haleblian and Finkelstein, 1999). This suggests that acquisition experience may be insufficient to ultimately ensure superior performance but it can be considered to be a contributory factor.

Still, Hitt *et al* (2001) cautioned the importance of the link between managerial experience and M&As success should not be underestimated. It could be argued that although experience is not the sole contributory factor to M&As success, it has differential effects on performance based on the characteristics of the value creation activities underlying the focal acquisition. In the most recent study about the causal relationship between experience and post-acquisition performance, Haleblian *et al* (2006) found that acquirers are more likely to make subsequent acquisitions as they gain acquisition experience. They also found that firms adjust their behaviours in view of prior outcomes, because the likelihood of future acquisitions was positively related to recent acquisition performance. Similarly, Uhlenbruck *et al* (2006) found that experience with acquisitions allows for capability enhancements as they create the potential for complementary and synergistic resource exchange between the merging firms.

3.3.1.3 Transfer of Resources, Capabilities and Knowledge

M&As provide an opportunity for firms to gain access to new sources of tacit knowledge (Empson, 2000). To enhance acquisition performance effective transfer of strategic and organisational capabilities is required (Hitt *et al*, 2001). The ability to share resources can enhance competitive advantage by lowering costs through better economies of scale, rapid learning, due to efficiency of learning, or improving differentiation such as a more comprehensive distribution network (Anand and Singh, 1997; Anand and Delios, 2002; Bresman *et al*, 1999; Lubatkin *et al*, 2001; Madhok, 1997). In his study, Brock (2005) found that synergy is contingent upon integration and resource sharing. Effective integration and uninhibited resource sharing are also necessary. The underlying assumption is that sharing of resources leads to improved performances of the newly formed entity as compared to the aggregated performance of the acquiring and the acquired firms, if they remain independent. Kanter and Dretler (1998) argued that as the amount of resource transfer between the two organisations increases, so does post-acquisition organisational performance. Madhok (1997) as well as Lubatkin *et al* (2001) also found that when acquisitions are viewed as dynamic and developmental processes that aim at learning and capability building then the subsequent acquisition performance will be high.

Capron *et al* (1998) studied the redeployment of resources between target and acquiring businesses following horizontal M&As. They found that firms redeploy R&D, manufacturing and marketing resources to and from targets and financial and managerial resources to targets. They highlighted that resource redeployment is a common part of post-acquisition behaviour as it leads to higher integration and in return better acquisition performance. Anand and Singh (1997) studied acquisitions in declined industries and concluded that for these acquisitions to create value and reach the expected benefits, transfer of resources, capabilities and knowledge is imperative. Meyer (2001) argued that the transfer of resources within the organisations maximises the realisation of synergies. Saxton and Dollinger (2004) found that satisfaction with the acquisition can be attributed to a combination of resource picking, deployment and interaction. This means that a company may make a successful acquisition by taking advantage of unique synergies presented in the target's capabilities and competencies.

Finkelstein and Haleblian (2002) examined if transfer effects have similar output across the individual and organisational levels of analysis. They found that transfer of capabilities had a positive effect on organisational performance when there were strategic and organisational similarities between the acquiring and target organisation. They concluded that transfer effects appear to hold some potential for explaining organisational phenomena and acquisition performance. Haspeslagh and Jemison (1991) as well as Birkinshaw *et al* (2000) concluded from their studies that capability transfer is the value-creating characteristic of an M&As: 'Acquisitions create value when the competitive advantage of one firm is improved through the transfer of strategic capabilities' (Haspeslagh and Jemison, 1991:28). Furthermore, they argued that value creation is realised only in the post-acquisition phase: 'Yet no matter how attractive the opportunity, value is not created until after the acquisition, when capabilities are transferred and people from both organisations collaborate to create the expected benefits or to discover others' (Haspeslagh and Jemison, 1191:30). This augmentation is supported by the basic assumptions of the resource-based view of the firm (Barney, 1991; Hitt *et al*, 2007;

Madhok, 1997), where sustained competitiveness, in the case of acquisition, is a product of resource combinations of the two firms (Fubini *et al*, 2007; Gatignon *et al*, 2002).

Capabilities transfer can lead to an increase in the acquiring firm's performance (Gupta *et al*, 2002; Markovitch *et al*, 2005) as well as to the firm's innovative performance (Kotabe *et al*, 2007); however, it takes some time until they can be fully deployed. It is assumed that strategic capabilities generally come to affect after 36 months (Hitt *et al*, 1991), the period it takes, for instance, to exploit a transferred patent or to establish a new strategic market position based on the transferred capabilities (Ajuha and Katila, 2001). However, Capron and Pistre (2002) argued that when the synergistic benefits stem from the target's resources, it could be expected that such transfers will not contribute to acquirer returns as the market is likely to allocate all the synergistic gains to the target. Moreover, it is important to mention that transfer of resources, capabilities and knowledge between the acquiring organisation and the target company also leads to enhanced performance in cross-border acquisitions (Anand and Delios, 2002; Bresman *et al*, 1999; Ruckman, 2005: for a more detailed analysis on the transfer of resources, capabilities and knowledge see section 2.6).

Ranft and Lord (2002) highlighted that there are a variety of barriers to the transfer of resources that are unique to acquisitions. The acquirer's desire to transfer and integrate the acquired firm's capabilities is complicated by the dangers of moving too quickly and damaging or losing the acquired firm's socially complex knowledge-based resources (Ranft and Lord, 2002). Likewise, Puranam *et al* (2006) found that structural integration has the most adverse effect on innovation when the acquiring company is trying to capitalise on the acquired company's innovation resources. Casciaro and Piskorski (2005) found that although transfer of resources, capabilities and knowledge between the two organisations is a key driver of acquisitions, power imbalance between the two organisations acts as an obstacle to their formation. Empsom (2001) found that individuals in organisations may resist knowledge transfer between the two organisations when they perceive fundamental differences in the form of the knowledge base and the organisational image of the combining firms. Haspeslagh and Jemison (1991) identified three types of problems that stand in the way of capability transfer. The first one is determinism, which occurs when management is unable to adjust its integration strategy to the new combined entity. The second is the lack of flexibility of management to cope with the changes and ensure a successful integration process. The third and last impediment is the lack of inspirational and transformational leadership from the acquirer's side that will facilitate the process and lead to the desired outcomes.

3.3.2 Organisational Culture School of Thought

It has been pointed out that organisational culture is essential to the creation of value and can enhance post-acquisition organisational performance. Vaara (2000; 2002) argued that scholars used the notion of culture to describe various types of organisational phenomena such as culture clash, the cultural differences in values and beliefs between the two organisations, to find the root of organisational problems following the acquisition. Culture studies in the context of acquisitions have included analyses of cultural clashes (Buono and Bowditch, 1985; Cartwright and Cooper, 1993; Stahl and Voigt, 2005), studies focusing on the impact of cultural differences on post-acquisition performance, analysing the notion of cultural fit (Chatterjee *et al*, 1992, Stahl and Voigt, 2008; Weber, 1996; Vaara *et al*, 2003) as well as analysis of the dynamics of acculturation processes (Larsson and Lubatkin, 2001; Nahavandi and Malekzadeh, 1988).

3.3.2.1 Acculturation

Acculturation in M&As is the outcome of cooperative process whereby the beliefs, assumptions and values of two previously independent work forces emerge to a jointly determined culture (Larsson and Lubatkin, 2001). The acceptance of a new organisational culture by acquired employees has been frequently hypothesised as the key to the long-term success of an acquisition (Braksick, 2000; Cartwright and Cooper, 1996; Weber, 1996; Weber *et al*, 1996). Often, achieving acculturation is neglected in the post-acquisition integration even though it represents a major challenge to acquiring firms (Larsson and Lubatkin, 2001; Nahavandi and Malekzadeh, 1988; Stahl and Voigt, 2008).

Academics have discussed the challenge following different techniques and theories. Larsson and Lubatkin (2001) reviewed the literature on acculturation and concluded that the most common theories are the person-organisation fit (O'Reilly *et al*, 1991), social-anthropology (Cartwright and Cooper, 1992; 1993; Nahavandi and Malekzadeh, 1988), relational demography (Jackson *et al*, 1991), the attraction-selectionattrition paradigm (Schneider, 1987), social movements (David, 1977) and relative standing (Hambrick and Cannella, 1993). Larsson and Lubatkin (2001) argued that these theories try to explain and give light to the reasons that people at the acquired organisation usually face considerable pressure to conform to the values and management practices of the acquiring firm, the reasons that these pressures tend to cause resistance among the work-force and to the outcomes that result from that resistance (Schweiger and Weber, 1989; Haspeslagh and Jemison, 1991).

This resistance to change is often referred as a 'cultural clash' between the two firms and the research has shown that cultural clash can result in lower commitment and cooperation among the acquired employees, greater turnover among the acquired managers (Hambrick and Cannella, 1991; Lubatkin *et al*, 1999), a decline in shareholder value at the buying firm, and a deterioration of operating performance at the acquired firm (Weber, 1996; Very *et al*, 1997). However, given the importance ascribed to achieving acculturation in acquisitions, it is striking how little empirical evidence exists about the determinants of successful and unsuccessful acculturation (Larsson and Lubatkin, 2001).

Cartwright and Cooper (1992; 1993) studied the culture compatibility between the organisations. Their study led them to confirm the proposition that culture clashes will be minimised when acquired employees are both willing to abandon their own culture and perceive the acquirer's culture as attractive. This is achieved when there is some degree of autonomy from the acquiring company. Employees within the acquired company were seen to display greater commitment to achieving successful post-acquisition integration when they perceived that the acquisition would at least lead maintain, if not increase, their level of participation and autonomy.

Larsson and Lubatkin (2001) tried to provide a better rationale on tackling acculturation in the context of acquisition practices. They viewed the notion of acculturation as a dependent variable, depending on other organisational practices that are enforced during the post-acquisition integration process. They tried to examine alternative explanations to acculturation outcomes using organisational, strategic and national factors. Their primary argument was that their results appeared to be more optimistic than that reported by the other authors (see Chatterjee *et al*, 1992; Cartwright and Cooper, 1993; Nahavandi and Malekzadeh, 1988) whose major contribution to knowledge was that post-acquisition acculturation was largely predetermined by pre-acquisition cultural attributes, and therefore, outside of management's control during the integration process. In contrast, Larsson and Lubatkin (2001) found that successful acculturation is based on the way that the acquiring firm will manage the informal integration process, that is, its reliance on social controls or the amount of coordination or socialisation efforts expended by the buying firm. A post-hoc analysis revealed that social control also has an indirect and positive influence on acculturation by acting in concert with formal integrative efforts.

Nonetheless, in support of the previous research and literature, it could be argued that the lack of consistent and coherent research findings when studying acculturation and the impact of culture in the context of post-acquisition integration can be attributed to the fact that the notion of culture is a highly problematic concept. Meek (1992) and Schein (1996) stated that there are no definite answers to what is culture and how it can be identified, measured, assessed and controlled. Hofstede *et al* (1990) provided a definition and an instrument to measure organisational culture. They defined organisational culture as the set of values, practices, symbols, heroes and rituals that manifest themselves of peoples' perceptions. However, this study was based on the study on national culture dimensions (Hofstede, 1980) which has received a lot of criticism from other academics (Javidan *et al*, 2006; McSweeney, 2002). Tihanyi *et al* (2005) stated that there is a plethora of definitions regarding organisational culture and therefore, it is unrealistic to expect that a single measure of organisational culture can fully and accurately determine the underlying differences across cultures. In line with this argument, Stahl and Voigt (2005) stated that empirical research on cultural differences in M&As research has yielded mixed results. There is no consensus on how national or organisational culture differences are influencing M&As success. Their justification on these inconsistencies was based on the fact that the relationship between cultural differences and M&As success is more complex than previously thought. However, some recent studies have offered consistent definitions of organisational culture as well as consistent measures and constructs based on existing cultural dimensions.

One of these recent studies is the GLOBE project. The GLOBE project provided some insights, on how to measure organisational culture, offering a clear definition about culture and the ways it should be measured (House *et al*, 2001). They defined culture as shared motives, values, beliefs, identities and interpretations or meanings of significant events that result from common experiences of members of collectives and are transmitted across age generations (Javidan and House, 2002). Based on this definition they developed a construct to measure culture and leadership across 62 nations. With their research House *et al* (2001) aimed to overcome the limitations of past studies on national and organisational culture and provide a concrete framework on the measurement of culture and the impact that it has on organisational performance. However, it should be noted that this research has not been applied to acquisitions yet, but it provides a platform for future studies on cross-cultural management issues of acquisitions to elicit better and consistent results.

Nahavandi and Malekzadeh (1988) provided one of the first studies that investigated culture in the context of acquisitions. Their study was focused on the integration of cultures in the post-acquisition process. They defined acculturation as the changes that take place in cultures of two separate companies after they are combined usually by an acquisition. The authors identified four modes of acculturation as discussed in section 3.2. Nahavandi and Malekzadeh (1988, 1993) observed that congruence between the acquirer's and target's preferred modes of acculturation influences the success of post-acquisition integration. They argued that if the target company wants to preserve their culture and their organisational practices then there will be a major culture clash in the integration process. However, this cultural clash is also dependent on the strategy that the acquiring company has chosen for the acquisition and the integration. It could be argued that if the acquisition is unrelated, then it is for the best interests of the acquiring company not to change the organisational culture of the target and provide them with autonomy in decision-making within their company. On the other hand, if the acquisition is related the acquiring company will chose to fully integrate the target company into their own systems of operation and impose their organisational culture, thus, resulting on choosing the degree of acculturation, which might result in culture clash.

Drawing on the notion of acculturation and culture clash Veiga *et al* (2000) and Elsass and Veiga (1994) argued that although cultural differences exist, it does not necessarily imply that the acquired firm will resist any post-acquisition consolidation attempts. As Nahavandi and Malekzadeh (1993) asserted some cultural differences may actually facilitate an assimilation mode of cultural integration. For instance, members of the acquired organisation may believe that their practices are dysfunctional that hinder successful organisational performance and, in general, less in line with their perceptions of what ought to be than what they perceive at the acquiring firm (Veiga *et al*, 2000). Another case would be that the acquired executives may believe that the acquiring firm's culture better addresses their normative expectation and therefore, willingly adopt its culture.

3.3.2.2 Culture Fit

Another theory regarding the impact of culture on the post-acquisition integration process is the notion of culture fit. In other words, it could be argued that the success or failure of integration is explained by the concept of cultural fit or similarity (Jemison and Sitkin, 1986; Weber, *et al*, 1996; Weber, 2000). Culture fit between the acquirer and the target organisation has been studied in terms of national culture fit or cultural distance (Meyer and Altenborg, 2008; Shenkar, 2001; Weber *et al*, 1996) and in terms of organisational culture fit (Larsson, 1993; Weber, 1996). These two notions will be discussed in the section blow.

(a) National Culture Fit

Cross-border transactions involve interactions with different societal value systems (Tihanyi *et al*, 2005). These interactions are mainly attributed to the differences between the national cultures of the nations involved (Brouthers, 2002; Davis *et al*, 2000; Kirkman *et al*, 2006; Lubatkin *et al*, 1998; Uhlenbruck, 2004). Cultural distance indicated the difference in culture between a home country (the acquirer's origin) and each individual target country (Brouthers and Brouthers, 2000; Leung *et al*, 2005; Shenkar, 2001). Hofstede (1998) argued that cultural differences can have an impact on managerial effectiveness and on utilising firm-specific advantages in a particular location. Since cultural distance is connected to national culture differences, it is important to define the term national culture.

National culture has been defined as the collective programming of the mind which distinguishes members of one nation from another (Hofstede, 1991). In contrast to organisational culture, the mental programmes that make up a person's national culture are learned through early socialisation with the family and reinforced during schooling. These national mental programmes reside primarily at the level of values about what is normal versus abnormal (Hofstede, 1991) and define basic assumptions concerning relationships with people, time and nature (Trompenaars, 1996). National culture has been empirically found to influence many aspects of a firm's organisational culture and systems (Morosini *et al*, 1998; Shimizu *et al*, 2004).

Very and Schweiger (2006) found that the nationality of the firms plays a key influence in the management of the post-acquisition integration process. Given these influences on organisational life and the link between organisational compatibility and acquisition performance, several authors from the culture school of thought have posited that the compatibility of national culture between the combining firms in cross-border acquisitions will be an important determinant of the eventual outcome of the union (Angwin and Vaara, 2005; Gertsen *et al*, 1998; Larsson and Lubatkin, 2001; Olie, 1994; Schoenberg, 2004; Stahl and Voigt, 2008; Vaara, 1999; Very *et al*, 1993; Weber *et al*, 1996). Others have maintained that due to the strong impact of national culture and culture distance, organisations prefer joint ventures over acquisitions so as to avoid conflicts and culture clashes between the acquirer and the target organisation (Barkema and Vermeulen, 1998; Brouthers and Brouthers, 2000; Davis *et al*, 2000; Harzing, 2002; Hennart and Reddy; 1997; Slagen and Hennart, 2008; Uhlenbruck, 2004).

The cross-national acculturation process is similar to that for the intra-national integration (Barkema *et al*, 1996). Brannen and Salk (2000) found that the interplay between national and organisational cultures evolves as a dynamic, ongoing and changing subtotal of interpersonal negotiations around organisational issues. Accordingly, and in line with the results of the organisational culture studies, Olie (1994) postulates that the cultural difficulties experienced within a cross-border acquisition will be contingent upon not only the degree of differences in organisational and national cultures, but also the level of integration achieved and the perceived attractiveness of the new identity. This finding points to the fact that it is the post-acquisition integration process that influences the success or failure of a cross-border acquisition along with the cultural factors that might affect this process. The logic is that cultural and communication barriers can be major obstacles to achieving integration benefits (Stahl *et al*, 2004). Hennart and Reddy (1997) reported that cultural distance is a major constraint to the successful integration of the labour forces of the two organisations. Likewise, Barinaga (2007) found that national culture has an important role in the discursive production of differences among group members and that reference to cultural diversity becomes central in re-establishing group members' interdependency.

Tihanyi *et al* (2005) argued that prior research has provides mixed empirical evidence regarding the specific impact of cultural distance. Some studies have indicated a negative effect between cultural distance and performance (Barkema and Vermeulen, 1998; Brouthers and Brouthers, 2001) while others have reported a positive relationship (Morosini *et al*, 1998; Teerikangas, 2007). Brannen and Salk (2000) argued that cultural differences among managers are frequently invoked as an explanation for the problems that arise in cross-border acquisitions. Tihanyi *et al* (2005) reported that cultural distance can lead to increased operational difficulties that are attributed to the lack of understanding of the norms, values and institutions that account for social exchange across markets. Weitzel and Berns (2006) and Slagen and Hennart (2008) found that high levels of cultural difference may increase post-acquisition management costs and lower the performance of acquisitions. This is based on the finding that the larger the cultural distance to the target country, the more incompatible the practices and values of employees of acquired subsidiaries will be with those of their acquirers (Brouthers and Brouthers, 2001; Leung *et al*, 2005; Meyer and Altenborg, 2008; Slagen and Hennart, 2008). Uhlenbruck (2004) argued that cultural dissimilarities may lead to problematic integration of the two organisations. Moreover, he found that cultural differences significantly reduce the potential of region-specific resources of the target as a foundation for future subsidiary growth. Hence, cultural differences are a key detriment to resource exploitation at the target firm (Capron, 1999; Uhlenbruck, 2004; Weitzel and Berns, 2006).

On the other hand, Morosini *et al* (1998) found that cultural distance enhances cross-border acquisition performance by providing access to the target's and the acquirer's diverse set of routines and repertoires embedded in national culture. The authors also reported that national cultural distance has a significant effect on cross-border acquisition performance depending on the degree of strategic relatedness and post-acquisition strategy. Tihanyi *et al* (2005) argued that based on internalisation theory the performance-enhancing argument of cultural distance suggests that cross-border acquisitions in culturally distant markets have numerous organisational advantages. Organisations that enter culturally distant markets realise increased innovation performance (Kotabe *et al*, 2007; Ruckman, 2005) through the acquisition of new capabilities (Bresman *et al*, 1999) and local knowledge and expertise (Vermeulen and Barkema, 2001). In section 2.6 it was mentioned that cross-border acquisitions enjoy more benefits than domestic acquisitions. Teerikangas

(2007) argued that these benefits are realised when organisations enter distinct and different cultures.

Overall, national culture distance is an important factor to consider when deciding about and carrying out a cross-border acquisition (Morosini *et al*, 1998). Meyer and Altenborg (2008) argued that managers should exhibit cultural sensitivity in resolving incompatibilities as well as focus on more subtle characteristics in the corporate strategies such as the dominant logics and location in geographical clusters in order to minimise the potential negative effects of cultural distance.

(b) Organisational Culture Fit

Organisation culture fit is defined as the extent to which the management styles, ways of planning, time and growth orientations are similar in both the acquiring and the target companies (Weber and Menipaz, 2003). Weber (2000) mentioned that although academics and practitioners have attributed the effects of culture fit compatibility on the organisational performance, still the literature is inconsistent. He argued that empirical studies that investigate the role of culture fit in acquisitions remain a rarity and what has been investigated so far, is based on observations by practitioners and consultants with little empirical or theoretical support. Moreover, he argued that although acquisitions differ with respect to factors such as relatedness and type of industry (e.g. Lubatkin, 1983; Nahavandi and Malekzadeh, 1988; Shrivastava, 1986), most studies have been conducted under the assumption that acquisitions are homogenous phenomena and failed to consider the possibility that the impacts of culture clash may vary from one organisational context to another.

Cartwright and Cooper (1993) in their research about cultural fit and compatibility mentioned that these terms are interdependent with the mode of acculturation or the type of 'organisational marriage' preferred by the dominant company. They argued that cultural similarity becomes more salient in situations of cooperative marriage or an acquisition where the dominant partner chooses integration as a preferred acculturation mode. They viewed cultural similarity as the tool that will facilitate the integration process and will help the partners to agree on which elements of their cultures should be kept and which should be discarded, thus, reducing conflict and acculturative stress. These findings are also supported by Olie (1994) and Veiga *et al* (2000) who claimed that compatibility leads to enhanced organisational performance.

Nevertheless, as Appelbaum (2000) argued it is a common practice for the target company to want to retain their own organisational identity and culture resulting in difficulties in the post-acquisition integration process. Researchers suggest that the stronger the culture of the acquired company, the less the acquired company will wish to change it (Buono and Bowditch, 1989), or the less effective the integration process will be (Cartwright and Cooper, 1993), resulting in a potential culture clash. While a strong culture can be a positive asset for a company creating the sense of unity and purpose among the members of the company, in the context of acquisitions, it lacks the needed flexibility and ability to adapt to a new environment (Nahavandi and Malekzadeh, 1993).

However, other researchers claim that culture has got nothing to do with the acquisition outcome. Larsson (1993a) found that the initial similarities between the merging companies had little to do with the actual acculturation and performance of the company. Larsson (1993a:13) pointed out that 'cultural similarity is a questionable strategic rationale for M&As selection'. This suggests that cultural fit standing alone is not the only criterion for successful acquisitions and indeed is not essential as Larsson (1993a) found that synergy potentials due to strategic fit do not have to be discarded because of a lack of culture fit.

3.3.3 Human Resources School of Thought

The human resource oriented perspective concentrated on organisational responses and employee reactions to acquisitions. These studies were motivated by an interest in the impact that acquisitions have on human resources and provided a rationale of organisational resistance as a fundamental social force (Dackert *et al*, 2003; Vaara, 2002) resulting in poor integration and possibly in acquisition failure. Fink and Holden (2005) mentioned that for an acquisition to be successful synergies in human resources and administrative and service functions should be achieved. It should be noted that the foremost argument of these studies is that human reactions to acquisitions usually received less attention by both academics and managers failing to understand that poor integration of human resources can lead to problematic integration. Academics who followed this perspective examined issues such as employees' reactions to acquisitions (Bourantas and Nicandrou, 1997; Buono and Bowditch, 1989; Hogg and Terry, 2000; Napier, 1989; Schweiger and Denisi, 1991; Schweiger *et al*, 1987) and managers' and senior executives' reactions to acquisitions (Cartwright and Cooper, 1993; Hambrick and Cannella, 1993; Fried *et al*, 1996). These reactions to acquisitions will be discussed in the following sections.

3.3.3.1 Employee Behaviour

Acquisitions invariably create changes that disrupt the routine of the operations of both the acquiring and acquired organisations (Ivancevich *et al*, 1987). When companies merge, employees in the new organisational entity may be touched by three unsettling realities. The first is that a major event has occurred over which they may have little control. Second, there is uncertainty about their futures. Third, they may be faced with changes in jobs, work relationships and family relationships (Ivancevich *et al*, 1987). Buono and Bowditch (1985) noted that negative reactions may lead to significantly lower levels of job satisfaction and job security and less favourable attitudes toward management. M&As are also associated with low commitment and loyalty levels. Paruchuri *et al* (2006) found that acquisition activity had a negative effect on productivity. They also pointed out that acquisition was highly damaging to employees that were most socially embedded in collaborative relationships with their pre-acquisition colleagues. Moreover, employees loose trust in the organisation as a consequence of the increased uncertainty that is associated with this strategy (De Wever *et al*, 2005; Harwood and Ashleigh, 2005; Maguire and Phillips, 2008).

M&As are particularly stressful, given the large-scale nature of such a change, the rapid speed of the change, the uncertainty associated with it and the fact that employees experience dramatic changes in their psychological contract (Bellou, 2007; Larsson *et al*, 2003). Acquisitions are associated with high voluntary turnover as a consequence of the high uncertainty levels and with high involuntary turnover as a direct effect of workforce reductions. Krishnan and Park (2002) as well as Krishnan *et al* (2007) also found that an acquisition can lead to larger workforce reductions, hence, a decrease to acquisition performance.

Academics argue that the long-term success and effectiveness of an acquisition can only be achieved through process management, effective communication and sensitivity to the concerns and expectations of the individuals on both sides of the acquisition (Bastien, 1987; Blake and Mouton, 1985; Bourantas and Nicandrou, 1997; Cartwright and Cooper; 1993; Coff, 2002; Maguire and Phillips, 2008; Mirvis and Marks, 1992; Schweiger and Denisi, 1991).

One of employees' major concerns is the loss of identity (Covin *et al*, 1996; Luo, 2006). Employees experience a powerful sense of loss when changes in the organisational routines occur as employees experience shock, anger, disbelief, depression and helplessness before, during and after the acquisition (Coff, 2002; Schweiger *et al*, 1987). Ullrich *et al* (2005) studied the organisational identification of employees based on their feelings towards and acceptance of the new company structure, intergroup relations and communication between the combining partners. The results of their study indicated that organisational identification is associated with the degree of continuity in the practices of the organisation. They argued that if neither projected nor observable continuity is given, deep structure identification would appear very difficult to maintain or achieve (Ullrich *et al*, 2005). De Wever *et al* (2005) pointed out that loss of identity in the combined organisation will also lead to loss of trust in the organisation. Similarly, Amiot *et al* (2006) assessed organisational identification based on job satisfaction, event characteristics and situational appraisals about the organisational change as well as the coping strategies used by employees to deal with the acquisition. The results of this study demonstrated that job satisfaction and organisational identification are highly dependent on feelings of self-efficacy. If employees perceived that the post-acquisition integration process had been implemented in a positive manner, they reported stronger feelings of self-efficacy than those that perceived that the process had not been implemented properly.

Van Dick *et al* (2006) found that post-acquisition identification was positively related to job satisfaction and organisational citizenship behaviour and negatively related to turnover intentions. If employees do not show organisational identification with the new entity, then this can have a negative effect on the social integration process as it disrupts the creation and maintenance of relationships in the organisation (Meyer and Altenborg, 2007). This, in turn, has a negative impact on employees' commitment, identification and job satisfaction which in turn can have an effect on performance. However, there are two critical conditions that should be met in order to achieve post-acquisition identification. These are communication and involvement in post-acquisition integration process (Bartels *et al*, 2006; De Wever *et al*, 2005; Maguire and Phillips, 2008). Bartels *et al* (2006) found that employees who were involved in the integration process demonstrated higher commitment levels as they were able to identify themselves with the new entity.

The second criterion that enhances identification is communication before, during and after an acquisition. It is well accepted that communication is the key tool within any change process (Kanter *et al*, 1992). This lack of communication may lead to high uncertainty levels among employees. Schweiger and Denisi (1991) designed a study to measure empirically if M&As lead to uncertainty and to assess the dysfunctional outcomes associated with it. The results suggest that communication during an acquisition process in the form of a realistic merger preview can help the employees get through the process. The results also indicated that the absence of a coherent communication program can lead to significant increases in stress, perceived uncertainty and absenteeism and significant declines in job satisfaction, commitment and perceptions of the company's trustworthiness. Dooley and Zimmerman (2003) found that effective communication facilitates the integration process as it provides a safe space for substantive differences and conflicts to surface and to be addressed.

3.3.3.2 Managerial Reactions

Another important issue in the human resources school of thought is the retention of the acquired top management team (TMT). TMTs are one of the primary dynamic capabilities in a firm. They are a valuable resource which may be one of the reasons for an acquisition (Kiessling and Harvey, 2006). TMTs are viewed as critical to enhancing post-acquisition performance as the TMT possesses knowledge critical to ongoing business operations. As most of the strategic knowledge demonstrated from the TMT is tacit (Kiessling and Harvey, 2006), TMTs can play a major role in creating value after an acquisition and achieve the synergistic benefits, thus, increasing the post-acquisition organisational performance. Vasilaki and O'Regan (2008) argued that in the post-acquisition integration, which is primarily concerned with the integration of organisational cultures and employees, TMTs have a crucial role in this process, facilitating the integration and generating high levels of satisfaction and commitment to the new organisation among different groups of employees. Moreover, TMTs through their actions can create value and contribute to synergy realisation of the acquisition, hence increasing organisational performance and generating high returns.

However, a high rate of executive turnover following an acquisition is evident (Lubatkin *et al*, 1999). This can have a detrimental impact of the post-acquisition integration process. Their departure may heighten the level of disruption and uncertainty in the firm following acquisition (Cannella and Hambrick, 1993). The organisation's strategy, dynamics as well as the identification of employees are all dependent upon the TMT. There are three theoretical perspectives on post-acquisition departure, relative standing, human capital theory and the resource based view. Relative standing focuses on the social status of the acquired TMT when compared to the acquiring TMT and human capital theory explores the influence of the TMT's stock of knowledge and skills. The resource based view of the firm suggests that keeping acquired company top executives with longer tenure would lead to more successful acquisition outcomes.

Using the theory on relative standing Lubatkin *et al* (1999) argued that top management turnover is dependent on the perceived cultural differences and on the removal of autonomy during the acquisition process. They found that top management turnover is more likely when there are great differences in the culture fit between the two organisations as well as where there is a restriction in the autonomy allowed. Buchholtz *et al* (2003) used the human capital approach tested the impact of firm specificity and industry specificity on the departure of the TMT. They found that age and tenure were associated with the intention to leave the organisation after the acquisition. The results indicated that the level of relatedness between the two organisations also influences the departure, the greater the relatedness, the greater the rate of departure after the acquisition (Stahl *et al*, 2006). Bergh (2001) using the resource based view of the firm found that organisational tenure of retained acquired company top executives is related positively to retention of the acquired company. However, Bergh's (2001) argument contradicts Buchholtz's *et al* (2003) argument that organisational tenure is associated with higher departure rates. Bergh (2001) concluded that retaining executives with longer tenure has more positive impact on post-acquisition performance than retaining executives with shorter tenure. The rationale for this conclusion is based on the contention that longer tenure executives have tacit knowledge that can create value in the integration process allowing for the integration and alignment of resources and departments.

Krug and Hegarty (1997) studied the turnover of the top executives through a cross border acquisition perspective. They argued that cultural and organisational differences between the firms lead to higher turnover among target company top managers. These differences may lead to decrease in role clarity, job satisfaction and the quality of supervision. Therefore, top executives may choose to leave the organisation when they are unwilling or unable to adapt to organisational changes made by a cross border acquiring firm. In a similar study, Krug and Hegarty (2001) found that the executives' perceptions of the acquisition announcement and interactions with managers in the acquiring company after the acquisition had a significant effect on determining whether executives stayed or left. Lee and Alexander (1997) found that the top management team is more likely to depart when the acquisition is related than when it is unrelated as it significantly increases the likelihood of CEO succession. Wright *et al* (2002) found that the compensation that the CEO received after the acquisition is also affecting the increased rates of executive departures.

3.3.4 The Process School of Thought

The fourth school of thought, the process perspective, has focused on the actions taken by management to guide the post-acquisition integration process (Birkinshaw *et al*, 2000). This perspective is built on the seminal work of Kitching (1967) who argued that effective management of the acquisition implementation process is the critical determinant of post-acquisition synergy realisation. According to Kitching (1967), the 'managers of change' are the critical source of acquisition success. Proponents of the process school regard acquisition implementation as a major organisational transition that should be carefully managed in order to achieve higher post-acquisition organisational performance.

The process literature reflects a school of thought that considers the actual acquisition process itself as a determinant of acquisitions outcome. These process studies emphasise the importance of appropriate pre-acquisition decision making and the need for appropriate forms of post-acquisition integration. This school encompasses the debate of academics about the importance of strategic fit and organisational fit and the realisation that effective fit of the two companies can lead to potential successful synergies. Acquisitions should be regarded as a discontinuous and fractionated process with distinctive characteristics that may affect important organisational activities and outcomes (Jemison and Sitkin, 1986). For an acquisition to be successful the decision-maker must make the right choices about the strategic and organisational fit, while at the same time; consider the process character of the acquisition. Effective leadership is an important factor in this school of thought. Studies that have studied acquisitions under the process perspective have adopted a holistic approach integrating different perspectives such as strategy, organisational behaviour and human resources in order to achieve harmonisation of the integration process and higher post-acquisition organisational performance (see Birkinshaw *et al*, 2000; Larsson and Finkelstein, 1999; Schweizer, 2005).

Child *et al* (1999) under this school of thought investigated if changes in management practice in the post-acquisition integration process are associated with post-acquisition performance. They included variables such as company philosophy, organisational structure, control, communication and human resource practices. They found that changes in management practices can have an adverse impact on performance whereas other contextual factors such as the variables mentioned above are not predictors of performance. Cote *et al* (1999) also examined the management of acquisitions as well as the performance of the acquisition by pacing them within their organisational and historical context. Their main variable was dominant logic. They found that certain aspects of the firm's deeply dominant logic influenced the decisions made in the post-acquisition integration process which produces an ongoing cascade that gradually transformed the firm.

In their study Larsson and Finkelstein (1999) developed a model that synthesised theoretical perspectives on M&As. They examined, through this model, how several characteristics of an acquisition interact with each other and affect performance. The variables that they used were combination potential, organisational integration, management style similarity and employee resistance. They found that all the antecedents of M&As success were related significantly to synergy realisation. Their study was the first major attempt to integrate all schools of thought together and provide a holistic analysis of the antecedents of performance and synergy realisation. It encapsulated the essence of the process school of thought.

In another study that integrated perspectives, Birkinshaw *et al* (2000) investigated the process through which an acquisition creates value. They included variables such as acquisition motives, intended level of integration, task integration and human integration. They found that human integration is slow and difficult to manage, but critical to the success of the acquisition. It also facilitated the effectiveness of the task integration. Schweizer (2005) included variables such as acquisition motives, organisational integration, knowledge transfer, cultural integration to develop a post-acquisition integration approach combining all these factors. He found that acquirers should aim at complementary assets in the target's core competencies. This action will enable them to correctly decide what kind of integration strategy to formulate. Zollo and Singh (2004) studied decision-making in organisational integration and concluded that in order to enhance acquisition performance, companies need to develop organisational capability to implement the integration process. Likewise, Kapoor and Lim (2007) found that knowledge development is crucial for the harmonisation of the integration phase.

Graebner (2004) studied the role of leadership, using a grounded theory approach. She found that leaders from the acquired organisation demonstrate two types of leadership: employee-oriented and task-oriented. She concluded that the acquired firm's managers played a critical role in realising both expected and serendipitous value. Kavanagh and Ashkanasy (2006) examined how leaders are perceived during an acquisition change process. They found that the change management strategy or approach selected by leaders result in shifts in organisational culture that will cause consequences for individuals in terms of the level of constraint imposed or autonomy granted. Finally, King *et al* (2004) conducted a meta-analysis from the findings of published research on post-acquisition performance. In their attempt to find the antecedents determining acquisition performance, they concluded that what impacts on the performance of firms engaging in acquisitions is not largely explained and more research is needed.

3.3.5 Variables in the post-acquisition research

The above critical analysis on the post-acquisition extant literature revealed the four schools of thought guiding the post-acquisition research. These groups have tackled a variety of issues ranging from organisational, cultural and human resources matters that have a direct impact on post-acquisition organisational performance. It is helpful at this stage to tabulate the variables. Hence, table 3.2 depicts the main variables derived from the systematic literature review on post-acquisition integration issues. From table 3.2 it can be seen that most the variables have been evenly used in post-acquisition research. However, it should be pointed out that only a few studies investigated the effect of leadership in the post-acquisition integration process and post-acquisition organisational performance, as evidenced during the time period of the review. This means that although leadership has been reported as a success factor in the acquisition process there is limited investigation of how leaders operate under this process or what are the attributes of a successful leader in this context creating a gap that should be further investigated.

Table 3.2: Tabulation of the variables in post-acquisition integration process literature

Author	Variables														
	Fit	Integration	Size	Resource Transfer	Speed	TMT Turnover	Employee Reactions	Leadership	Culture	Innovation	Deal Char.*	Industry Char.*	Type of Transaction	Experience	Performance
Ahuja and Katila (2001)			x	x						x	x	x			x
Allred *et al* (2005)	x	x													x
Amiot *et al* (2006)							x				x	x	x		
Anand and Delios (2002)				x							x	x	x		x
Anand and Singh (1997)				x							x	x	x		x
Barkema and Vermeulen (1998)		x	x	x					nat.**	x	x	x	x	x	
Barinaga (2007)						x	x		nat.						
Bartels *et al* (2006)		x					x				x				
Beckman and Haunschild (2002)											x			x	x
Bergh (2001)	x		x			x					x	x	x	x	
Bhagat *et al* (2002)	x			x					nat.						
Birkinshaw *et al* (2000)	x	x	x	x	x	x	x		org.***		x	x	x	x	
Brannen and Salk (2000)						x			org./nat.						
Bresman *et al* (1999)			x	x						x					x
Brouthers (2002)									nat.		x	x	x		x
Brouthers and Brouthers (2000)	x		x	x					nat.		x	x		x	
Brouthers *et al* (2003)			x								x	x	x		x
Buchholtz *et al* (2003)	x					x					x	x	x		
Capron *et al* (1998)				x							x		x		
Capron *et al* (2001)	x		x	x						x					x
Casciaro and Piskorski (2005)				x							x	x			x
Child *et al* (1999)		x	x				x				x	x	x		x
Coff (2002)	x						x				x	x	x		x
Cote *et al* (1999)				x		x	x				x	x	x	x	

Author	Variables														
	Fit	Integration	Size	Resource Transfer	Speed	TMT Turnover	Employee Reactions	Leadership	Culture	Innovation	Deal Char.*	Industry Char.*	Type of Transaction	Experience	Performance
Dackert *et al* (2003)		x				x			org.						
Davis *et al* (2000)	x		x	x					nat.		x	x	x	x	x
De Wever *et al* (2005)		x				x			org.						
Empsom (2001)				x		x					x	x	x		
Fink and Holden (2005)	x	x		x			x	x	org./nat.		x	x		x	x
Finkelstein and Haleblian (2002)	x		x								x				x
Gatignon *et al* (2002)				x						x					x
Graebner (2004)							x	x			x			x	
Gupta and Gerchak (2002)											x	x	x		x
Haleblian and Finkelstein (1999)	x													x	x
Haleblian *et al* (2006)			x	x							x	x		x	
Harzing (2002)			x						nat.	x	x	x	x	x	
Harwood (2006)											x	x	x		x
Hayward (2002)	x				x						x	x		x	x
Heeley *et al* (2006)	x		x	x						x					x
Hennart and Reddy (1997)		x	x						org./nat.		x	x			x
Hitt *et al* (1998)	x	x	x	x		x					x	x	x	x	x
Hogg and Terry (2000)						x	x		org.						
Homburg and Bucerius (2006)	x	x	x		x										x
Javidan (2002)	x	x		x			x	x	org./nat.		x	x		x	x
Kanter and Dretler (1998)	x	x		x					nat.		x				x
Kapoor and Lim (2007)			x							x	x	x	x		x
Kavanagh and Ashkanasy (2006)						x	x	x	org.						
King *et al* (2004)	x										x	x	x	x	x

Author	Variables														
	Fit	Integration	Size	Resource Transfer	Speed	TMT Turnover	Employee Reactions	Leadership	Culture	Innovation	Deal Char.*	Industry Char.*	Type of Transaction	Experience	Performance
Kosnik and Shapiro (1997)	x		x		x						x	x	x		x
Kotabe *et al* (2007)				x						x				x	
Krishnan and Park (2002)	x		x				x								x
Krishnan *et al* (1997)	x		x			x									x
Krishnan *et al* (2007)						x					x				x
Krug and Hegarty (2001)						x					x	x	x		
Larsson and Finkelstein (1999)	x	x		x		x	x								x
Larsson and Lubatkin (2001)	x	x	x						org./nat.						x
Larsson *et al* (2003)	x						x		org./nat.					x	x
Lee and Alexander (1998)			x			x					x	x	x		
Lee and Caves (1998)			x								x	x	x		x
Lubatkin *et al* (1998)	x		x	x					nat.		x				x
Lubatkin *et al* (1999)			x			x			org./nat.		x	x	x		
Lubatkin *et al* (2001)				x											x
Luo (2006)						x			org./nat.			x			
Madhok (1997)	x			x											
Markovitch *et al* (2005)											x	x	x		x
Marks and Mirvis (2001)						x	x		org.						x
McEvily *et al* (2004)	x	x		x						x					x
Meyer (2001)	x	x	x	x						x	x	x			
Meyer and Altenborg (2007)		x					x								

Author	Variables														
	Fit	Integration	Size	Resource Transfer	Speed	TMT Turnover	Employee Reactions	Leadership	Culture	Innovation	Deal Char.*	Industry Char.*	Type of Transaction	Experience	Performance
Meyer and Lieb-Doczy (2003)		x					x				x	x	x		
Morosini *et al* (1998)	x	x		x					nat.		x	x	x		x
Nachum and Wymbs (2005)			x	x							x	x		x	
Nadolska and Barkema (2007)			x	x		x			org./nat.					x	x
Oberg and Holmstrom (2006)				x							x	x	x		x
Park (2002)		x	x	x											
Park (2003)				x							x	x	x		x
Paruchuri *et al* (2006)		x		x											x
Puranam *et al* (2006)	x	x	x		x					x				x	x
Ramaswamy (1997)			x							x					x
Ranft and Lord (2002)	x	x		x						x	x	x	x	x	x
Reuer *et al* (2004)			x								x	x		x	x
Ruckman (2005)										x					x
Saxton and Dollinger (2004)	x	x				x			org.						x
Schoenberg (2006)	x		x						org.		x	x	x		x
Schweizer (2005)		x		x					org.		x				x
Seth *et al* (2000)											x	x	x		x
Seth *et al* (2002)			x								x	x	x		x
Shaver (2006)		x												x	x
Tihanyi *et al* (2005)			x						nat.		x	x			x
Uhlenbruck (2004)			x	x					nat.					x	x
Uhlenbruck and De Castro (1998)		x	x	x					nat.		x	x	x		
Uhlenbruck and De Castro (2000)	x								nat.		x	x	x		x
Uhlenbruck *et al* (2006)	x										x			x	x
Ullrich *et al* (2005)							x		org.						

Author	Variables														
	Fit	Integration	Size	Resource Transfer	Speed	TMT Turnover	Employee Reactions	Leadership	Culture	Innovation	Deal Char.*	Industry Char.*	Type of Transaction	Experience	Performance
Vaara *et al* (2003)		x				x	x		org./nat.		x		x		
Valle (1998)											x	x	x		x
Van Dick *et al* (2006)		x				x	x				x				x
Veiga *et al* (2000)									nat.						x
Vermeulen and Barkema (2001)				x						x	x	x	x		
Very *et al* (1997)	x	x	x						nat.						x
Weitzel and Berns (2006)									nat.		x	x	x		x
Worthington (2004)										x	x	x	x		x
Wright *et al* (2002)			x			x					x				x
Yang and Hyland (2006)											x	x	x		x
Zollo and Singh (2004)	x	x	x	x						x				x	x
Total	**38**	**32**	**41**	**41**	**5**	**25**	**21**	**4**	**37**	**18**	**66**	**54**	**43**	**27**	**70**

*Char.=Characteristics, **nat.=National Culture, ***org.=Organisational Culture

3.4 Limitations of current research

Over the past 30 years, a growing body of research has investigated the antecedents that predict the performance of acquisitions. However, despite this extensive body of research, the key factors for M&As research remain poorly understood (King *et al*, 2004). King *et al* (2004:196) argued that 'existing empirical research has not clearly and repeatedly identified those variables that impact an acquiring firm's performance'. Rather surprising but not unexpectedly Bower (2004:237) stated

"*When we study M&A, we are not learning that much new*".

The systematic literature review in this chapter found that most of the studies are dealing with similar variables and similar settings. For example, research on relatedness nowadays yields the same inconsistent results as it did in the 1990s when it was first established. At the same time, there are no comparative studies of acquisitions across industries. Research has focused on either manufacturing or service firm without investigating how the same dynamics, in the same period of investigation impact on different industries. Similarly, results in comparative cross-border studies are inconsistent (see section 3.3.2). Most studies have focused on investigating the culture clash or culture distance but the literature has not been advanced to simultaneously include other factors, for instance the motives of the acquisitions, the level of integration or the level of resource transfer, dynamics that have been studied in domestic acquisitions. One major limitation of the M&As research is that researchers treat all M&As as if they are the same (Larsson and Finkelstein, 1999).

M&As have drawn the attention of many groups of scholars, each studying the subject from their own unique perspective. They approach the phenomenon from different perspectives, with different set of assumptions and with a variety of methodologies. The extensive literature review in this area presented in section one of this study highlights that there are certain limitations and criticisms on the literature on M&As. These limitations can be categorised according to their theoretical background, the methodological background and the performance indicators employed in the studies.

3.4.1 Theoretical perspectives

M&As have been studied from an array of perspectives including finance, economics, strategy, organisational behaviour, human resources, cross-cultural and process. While sharing some definitions and terms, scholars writing about M&As generally refrain from entering each other's areas of expertise, thereby missing obvious opportunities for combined research that would lead to a better understanding of M&As (Javidan *et al*, 2004). For example, strategic management research has not considered important issues such as implementation drivers and obstacles. On the other hand, research from other streams, such as organisational behaviour and human resource management, has focused on the 'people' aspects of implementation often neglecting strategic considerations. Organisational behaviour research focuses on the impact of M&As on individuals and attempts to provide a complementary explanation of M&As success or failure. The systematic literature review presented in this chapter supports the argument that studies employing an interdisciplinary approach are few in number thus, limiting the understanding of the complex phenomenon of post-acquisition integration process. The subject of M&As is by nature a multilevel, multi-stage and multidisciplinary construct. Researchers, on the other hand, tend to use single-level, single-stage and single disciplinary approaches (Javidan *et al*, 2004).

This has had the consequence that many of the insights that might help to shed more light on M&As dynamics have been lost. At the same time, the ability of M&As researchers to contribute to wider theoretical discussions in organisation studies has been hampered (Angwin and Vaara, 2005). It should be highlighted that only when multiple measures from diverse perspectives (that is, strategic management and organisational behaviour) are employed more robust explanations of surface paradoxes will be achieved. The case of relatedness can illustrate this argument. Research studies conducted from the organisational behaviour school of thought as well as the culture school of thought have underlined the importance of economies of fitness. However, they have failed to study the different kinds of relatedness simultaneously leading to inconsistent results (Javidan *et al*, 2004). It is likely, then, that relatedness interacts with other systemic variables in the M&As to produce robust performance results. These variables that influence the efficacy of the relatedness dimension may exist at different levels of analysis that are not normally considered by scholars who are unwilling to combine different schools of thought. Other variables such as measures of leadership dimensions, transfer of resources, capabilities and knowledge may help explain some of the inconsistent findings discussed above. Moreover, researchers tend to investigate the same variables without exploring new areas that might give an insight on the phenomenon of post-acquisition integration process. The tabulation of the variables demonstrated that variables such as speed of integration and leadership have been under-investigated in the acquisition research, still leaving gaps that should be addressed in the study of acquisitions.

It could be argued that to overcome this limitation the process school of thought should be adopted as studies will benefit from its interdisciplinary and integrative approach. However, it should also be noted that just undertaking research in this school of thought is not enough. The researcher should go beyond his/her research interests and delve into unknown territories to become receptive to new developments in theories and be prepared to integrate different and complex dynamics in their research. Angwin and Vaara (2005) argued about the stagnation in the organisational culture school of thought and suggested that researchers should 'dig deeper' into cultural problematic to make progress with key issues in this field or search for new concepts and angles. It is common in research studies to take some results for granted and assume that will be the same in other settings. For example, Angwin and Vaara (2005) mentioned that at the moment the culture perspective has become the dominant paradigm in studies focusing on organisational issues in M&As integration, neglecting other dynamics that can influence this relationship. This means that researchers investigating the role of acculturation and culture fit in the integration process often overlook other issues such as the strategic intent of the acquisition in explaining how culture intervenes in the integration process. For instance, to better understand the effect of culture in the post-acquisition integration process, careful consideration should be given to other contingency factors that simultaneously affect the integration process. These factors can be the relatedness of the acquisition, drawing from the organisational behaviour school of thought, the size of the firm, the industry type and the motives for the acquisition, drawing from the strategic school of thought.

3.4.2 Methodological issues

The second major limitation that fragments the understanding of the post-acquisition integration process is the methodology chosen to assess the impact of certain variables on acquisition performance. Acquisitions have been studied from multiple methodological perspectives, ranging from traditional statistical analyses to ethnographies and Foucauldian discourse analysis. However, the majority of the studies adopt a quantitative analysis in order to assess the degree of influence that the variables under investigation have on post-acquisition organisational performance. Stahl *et al* (2005:408) stated that each of the different perspectives investigating acquisitions are almost completely 'housed in and founded upon the scientific philosophy of logical positivism'. This inherently limits the understanding of the complex phenomenon of the integration process as it does not take into account how behaviours are shaped and what triggers certain reactions in the socio-cultural changes that acquisitions bear.

Stahl *et al* (2005) argued that in order to comprehend the interactions in the post-acquisition integration process researchers should employ multiple methodologies housed not just in the paradigm of positivism, but from the paradigms of hermeneutics and nonlinear dynamics as well. Stahl *et al* (2005) argued that by employing multiple methodologies and moving away from the traditional quantitative paradigm, the complexity of the process will be clarified and exposed as scholars will be able to understand the processes that lay beneath them.

Contrary to the above argument for adopting a qualitative methodology is the problem that most researchers face in acquisition research: access to organisations. Throughout the literature review acquisitions are characterised as dynamic, ongoing, complex and interactive phenomena. Due to their intrinsic nature executives of organisations that undergo acquisitions are most of the time unwilling to allow access to researchers to conduct observations, interviews and focus groups. One major issue is the confidentiality agreements that these executives have signed (Harwood, 2006) that do not allow them to disclose information in case these become intelligence material for their competitors. Executives are keener on participating in surveys as the role of the researcher in this case is distant rather than being probed by a researcher on site.

3.4.3 Performance measurement issues

The last impediment of research on post-acquisition integration process is the indicators that researchers employ to measure the success or failure of acquisitions. Bower (2004) identified two fundamental problems of current M&As research. The research on M&As that adopts a performance hypothesis is limited by non-strategic measures of performance. At the same time, studies that examine acquisitions from a strategic perspective seem almost always to use non-economic measures of performance. To overcome the limitations adjacent to employing one type of performance measures and to provide a holistic evaluation of acquisition performance King *et al* (2004) suggested that future research should pay more attention to nonfinancial variables that are currently underrepresented in theory and research that seeks to explain M&As activity and performance as well as financial measures.

Ideally researchers should deal with both managements' strategic and economic objectives in undertaking a deal (Bower, 2001). Where so many variables are important to the various outcomes of interest, they must be identified correctly and measured or controlled for findings to be more than interesting speculation. This limitation of the literature is discussed in chapter 5 in more detail. In summary, as Stahl *et al* (2005:408) argued because of the complexity of the systemic relationships involved in acquisitions, 'real insight will likely ensue only if research of an interdisciplinary nature, or research that is broad in its disciplinary orientation is brought to bear on the M&As problem'.

3.5 School of thought for this study

The above section indicated that the literature on acquisitions has certain drawbacks. This study attempts to address these limitations through the theoretical background of the study, the performance indicators adopted and the research design. The systematic review of the literature revealed that there are four different schools of thought underpinning research on the post-acquisition integration process. It is important to take into account the different dynamics that these schools investigate in order to place the existing study under the umbrella of the most relevant school of thought. The main aim of this study is to investigate the role of leadership in the context of acquisitions and to explore how leadership can enhance post-acquisition organisational performance. In order to achieve this aim this study assumes a perspective akin to that of the process school. Under the process school of thought academics have identified that leadership has a crucial role in the design and implementation of the post-acquisition integration process (Haspeslagh and Jemison, 1991).

The process perspective adopts a multidisciplinary attitude and integrates different perspectives from other schools of thought, for example from the strategic perspective or the organisational behaviour perspective. The process school adds to the richness of understanding how M&As really work and provides a framework whereby more integrative models of M&As performance can be built. A key contribution employing the process approach has been the contingent frameworks for the form of post-acquisition integration that take into account both the strategic and organisational requirements at a particular acquisition.

As the post-acquisition integration process is a dynamic and complex phenomenon studying the relationship between leadership and post-acquisition organisational performance from a single perspective would not enable the researcher to draw substantial conclusions and establish relationships. Therefore, this study also draws on research in the organisational behaviour tradition and in the school of organisational culture as well as the strategic management perspective, which deals with the motives of the acquisition. It should be noted that this study builds on research conducted by Birkinshaw *et al*, (2000) and Larsson and Finkelstein (1999) who have adopted the process school of thought for their research. Therefore, this school of thought is the most appropriate for this study.

To overcome the limitations of the performance indicators this study employs both financial and non-financial performance. Chapter 5 presents in more detail the performance indicators that this study adopts. However, this study was unable to overcome the methodological issues discussed in section 3.4.2 and adopts a positivist view. Nonetheless, careful consideration was given to the selection of variables and their operationalisation. This study holds that adopting the process school of thought and thereby, a multidisciplinary approach will shed light to complex issues that occur in the post-acquisition integration process even from a positivist perspective.

3.6 Hypothesis development- *Integration dynamics and Integration Process*

Section 3.5 mentioned that the process school of thought should be employed in order to provide a holistic and multidisciplinary picture of what constitutes post-acquisition organisational performance. In this chapter two main issues were covered regarding the deductive model depicted in figure 1.1. The first group of dynamics that were mentioned in this chapter are the combination potential. Birkinshaw *et al* (2000) as well as Larsson and Finkelstein (1999) have used this term to refer to dynamics that affect the post-acquisition integration process and performance and multidisciplinary in nature. These dynamics are also derived from the earlier discussion of the different schools of thought. It was mentioned that this research will mostly focus on the process school of thought but also draw from the organisational and the culture schools. The second main issue that this chapter has covered is the importance of the different integration strategies as well as the degree of integration between the two organisations. It was argued that different integration strategies will have different effects on post-acquisition organisational performance and therefore, it is crucial to investigate this under this research context. Sections 3.6.1 and 3.6.2 provide the hypothesis derived from the analysis in this chapter.

3.6.1 The association between the combination potential of the acquiring and acquired company and acquisition performance

The main assumption behind the process school of thought is the multidisciplinary approach adopted in explaining the acquisition phenomenon. The criticism of the literature pointed out that the omission of key strategic variables, such as the combination potential between the two organisations, might lead to the under-specification of research models (Waldman, 2004). Therefore, in order to understand which attributes make the acquisition leader successful, it is essential to understand how the combination potential variables influence the post-acquisition organisational performance. The process school of thought advocated that for an acquisition to be successful certain phenomena should occur. First, the school of thought stressed the importance of including the motives for the acquisition. Napier (1989) asserted that the motives of the acquisition are directly related to the subsequent performance of the acquisition. Similarly, Olie (1990) argued that the outcome of the acquisition as well as the management of the integration process is dependent upon the motives. Moreover, the process school of thought has highlighted the importance of relatedness between the two organisations. The process school of thought maintains that the more related the organisations are, the better the acquisition performance will be (Larsson and Finkelstein, 1999). Relative size and previous acquisition experience are also two factors that account for the combination potential and contribute to acquisition success (Barkema and Vermeulen, 1998; Capron *et al*, 2001; Powell, 1997). Finally, transfer of resources, capabilities and knowledge should occur in order for the post-acquisition integration to be successful and lead to increased performance. Therefore, hypothesis 1 is:

The greater the combination potential between the acquirer and the target, the greater the post-acquisition organisational performance

In order to test hypothesis 1, all the factors that constitute the combination potential should be investigated separately. Hence, the following hypotheses were developed:

Table 3.3: Hypothesis 1(a)-1(g)

Hypotheses 1(a)-1(g)
1(a) There is a positive association between the motives of the acquisition and performance
1(b) There is a positive association between organisational fit and performance
1(c) There is a positive association between strategic fit and performance
1(d) There is a positive association between culture fit and performance
1(e) There is a positive association between relative size of the companies and performance
1(f) There is a positive association between acquisition experience and performance
1(g) There is a positive association between transfer of resources and performance

3.6.2 The association between different integration strategies and acquisition performance

Integration is highly emphasised as an important factor contributing to acquisition success. Zollo and Singh (2004) argued that although the initial strategic, financial and organisational conditioning factors determine the degree of success that an acquisition can achieve, the post-acquisition integration strategy will likely determine the extent to which the synergy potential is realised. Integration is the engine of organisational change and development in acquisition-based growth and plays a critical role in overall corporate renewal strategy (Chakrabarti and Mitchell, 2005).

Part of the research on the post-acquisition integration process attempts to explain the level of post-acquisition integration. Haspeslagh and Jemison (1991) provided a framework for classifying the different integration strategies. These are the preservation approach, the absorption approach and the symbiotic approach. All these approaches have different dynamics and require a different degree of resource sharing, asset reconfiguration and lead to different performance results (for a more detailed analysis of these characteristics, see section 3.2). Therefore, this leads to the development of the following hypotheses:

Table 3.4: Hypothesis 2(a)-2(d)

Hypotheses 2(a)-2(d)
2(a) There is a positive relationship between performance and preservation strategy
2(b) There is a positive relationship between performance and symbiosis strategy
2(c) There is a negative relationship between performance and redesign strategy
2(d) There is a negative relationship between performance and absorption strategy

Post-acquisition integration has been empirically related to post-acquisition performance. Capron (1999) found that performance increases with post-acquisition reconfiguration in targets and acquirers. Zollo and Singh (2004) found that high levels of integration contributed to post-acquisition performance. Hence, it led to the development of the following hypothesis:

Table 3.5: Hypothesis 2(e)

Hypothesis 2(e)
2(e) There is a positive relationship between the degree of integration and post-acquisition organisational performance.

3.7 Concluding Remarks

This chapter reviewed the literature on the different integration typologies and highlighted the importance of carefully studying the post-acquisition integration process. The above discussion mentioned that many reasons for acquisition failure have been attributed to the lack of coherent planning and implementing the integration process. A systematic literature review method was adopted to identify the major streams of research in the post-acquisition integration process literature. Four different schools of thought have been assessed. These are the organisational behaviour, the organisational culture, the human resource management and the process school of thought. Each of these different streams of research has identified different predictors of performance and different reasons that underlie post-acquisition failure. The tabulation of the variables in table 3.2 offers an overview of the variables chosen in measuring post-acquisition organisational performance in the different schools of thought. From these four schools of thought, this research study will focus on the process school of thought while drawing from the organisational behaviour and organisational culture school of thought in order to investigate the role of leadership in enhancing post-acquisition organisational behaviour. Drawing from this literature, this chapter has also provided the first two hypotheses of this study regarding post-acquisition dynamics, referred to as combination potential and post-acquisition integration strategies.

As shown in table 3.2 there are only a limited number of studies focusing on leadership in the context of post-acquisition integration process and the effect that leadership has on post-acquisition organisational performance. It should be noted that this study investigates leadership at the individual level, inquiring about the different attributes that a Chief Executive should exhibit in order to achieve the harmonisation of the post-acquisition integration process and enhance post-acquisition organisational performance. Therefore, only studies that focused on the individual top leader were included in the systematic literature review in order to be consistent with the aims and objectives of this study. The following chapter discusses the importance of leadership in the post-acquisition process, the Full Range of Leadership theory that this study employs and derives the hypotheses of the study.

Chapter 4:

Leadership: The neglected success factor

"It is not so much what you buy,
but what you do after you bought it and
how well you do it that
matters in distinguishing failure from success"
(Singh and Zollo, 2004:8)

4.1 Preamble

In chapter 3 it was shown that post-acquisition integration is a crucial and decisive factor in the success of the acquisition. It was argued that this study will employ the process school of thought as it provides a multidisciplinary process under which the phenomenon of acquisitions can be studied. The critical assessment of the different schools of thought in the post-acquisition integration process literature identified that leadership has not been thoroughly studied in the context of acquisitions. The systematic literature review presented in chapter 3 revealed that only four articles from the selected journals have discussed the role of leadership in the post-acquisition integration context. It should be noted, as in section 3.6 that this study perceives the full range of leadership theory as a surrogate measure of leadership and therefore, one of the objectives of the systematic literature review was to find articles that discussed leadership styles in the context of acquisitions. It should also be highlighted that this study acknowledged other theories of leadership such as the upper echelons theory, the top management team theory but decided to focus on the leadership styles theory and investigate which leader attributes can lead to increased post-acquisition organisational performance. This is consistent with Javidan *et al* (2004) who advocated that one of the crucial questions that still needs to be answered is 'what are the attributes of effective leaders that lead to better acquisition performance'. This study sheds light into this question by employing Bass's (1985) classification of leadership styles and employing a multidisciplinary approach to test their effect on post-acquisition organisational performance. The process perspective represents an especially apt lens through which to examine the specific leadership attributes (Sitkin and Pablo, 2004) that might make Chief Executive Officers more effective in this role. The purpose of this chapter is to:

- analyse the extant literature on the effect of leadership in the post-acquisition integration process (section 4.2),
- analyse the role of leadership in this process (section 4.3),
- discuss the full range of leadership theory and its impact on organisational performance (section 4.4),
- analyse the association between leadership and organisational performance (section 4.5),
- to discuss the leadership approach for this study (section 4.6),
- provide the hypotheses of this study (section 4.7),
- provide the significance of this study (section 4.8).

4.2 The literature on leadership in the acquisition context

The impact of leadership on the success of post-acquisition integration process is partially recognised by scholars and practitioners. What is meant by partially is reflected by the results of the systematic literature review (see section 3.3.5) that although leadership as a concept is acknowledged in studies for post-acquisition performance, none of the scholars that have extensively studied acquisitions has investigated, articulated or explored the causal relationship between leadership and post-acquisition success (Sitkin and Pablo, 2004). Therefore, there are inconsistencies and contradictions in the literature concerning the exact role of the leaders in such a process and the influence that they have in managing change and achieving the harmonisation of the integration process. Sitkin and Pablo (2004) argued that it would be only a slight exaggeration to suggest that scholars and practitioners have ignored the role of leadership in acquisition success and failure.

It should be pointed out that whether an acquisition fails or succeeds depends primarily on the management of the post-acquisition integration process. Post-acquisition managerial competence is a critical variable to the success of M&As (Stahl *et al*, 2005). The first indication about the importance of leadership in such a process was made by Kitching (1967) who stated that the 'managers of change' are the critical source of acquisition success. Furthermore, Buono and Bowditch (1989) emphasised that top management should carefully analyse the goals of the acquisition, the strategic and organisational fit and how to establish commitment of employees to the acquisition. All these lead to the conclusion that the selection of leaders and management team to be in charge of the 'marriage stage' is critical and decisive of the success of the post-acquisition process (Haspeslagh and Jemison, 1991; Napier, 1989). It should be noted that the above research studies only refer to leadership as a strategic factor but do not explain how leadership can determine the post-acquisition success.

Sitkin and Pablo (2004) in their review tried to explain the reasons for the absence of a conceptual framework regarding the role of leadership in the acquisitions context. They concluded that so far empirically based literature is drawn from the disciplines of economics and sociology, which refer to leadership issues 'only in passing' (pg.4). The research that is focused on the organisational aspect of acquisitions tends to study cultural fit or the compatibility of other attributes referring to leadership issues only incidentally (e.g. Cartwright and Cooper, 1993; Marks and Mirvis, 2001; Nahavandi and Malekzadeh, 1988; Weber and Menipaz, 2003). Sitkin and Pablo (2004) also argued that although there are consultancy papers that draw attention to leadership issues, there has been little systematic attention in the literature to the effect of leadership on acquisition performance.

Graebner (2004) recognised the gap in the literature and studied this influence employing in-depth case studies. As leadership has not been thoroughly studied in the acquisition context, she employed ground-theory method. Her findings revealed that there are two major categories of leaders in the acquisition context. These are the leaders who take task-oriented actions and those who take employee-oriented actions. She concluded that task-oriented leaders were more focused on delivering the deal and promoted coordination, whereas employee-oriented leaders were more occupied with protecting and enhancing employees' conditions and proactive communication. Moreover, she asserted that task-oriented leaders were positively associated with successful post-acquisition integration.

Sitkin and Pablo (2004) based their review on the pyramid model of leadership by Sitkin *et al* (2001). This model recognises six types of leadership, personal, relational, contextual, inspirational, supportive and stewardship leadership. Their study was literature based relating these six types of leadership to acquisition performance. They found that leadership could make a significant, positive impact on the acquisition outcome but it still needs to be taken beyond broad generalities. They acknowledged that their study is limited due to the lack of any empirical support of the propositions but emphasised that researchers and practitioners should 'distinguish myths from realities and focus on critical, leverageable acquisition leadership issues' (pg. 10). Lastly, they pointed out that a theoretically rich and practical framework that will be empirically tested is needed in order to make a positive difference in acquisition performance.

Another study conducted by Covin *et al* (1997) tested the impact of transactional and transformational leadership on employee satisfaction with the acquisition. In their study, the authors pointed to the fact that there is no right or wrong leadership style as long as it is consistent with the motives of the acquisition and the desired outcome. Their results pointed out that leadership has an impact on acquisition satisfaction and suggested that choosing a leadership style for implementing the integration process should be a key consideration in planning for an acquisition. Moreover, they found that leadership styles are associated with acquisition satisfaction for acquiring firm employees but were different from those related to acquisition satisfaction for acquired firm employees.

Kavanagh and Ashkanasy (2006) viewed leaders as those who hope to initiate organisational change and generate follower acceptance. They investigated how leaders are perceived during an acquisition change process and explored the qualities and styles which motivate acceptance of the acquisition. They found that the change management strategy or approach selected by leaders will result in shifts in organisational culture that will cause consequences for individuals in terms of the level of constraint imposed or autonomy granted. This nature of consequences for individuals will determine whether individuals accept or reject the changes caused by an acquisition and affect the way leadership of the process is viewed and how effective leaders are perceived as agents of change.

The most recent study concerning the effect of leadership in the post-acquisition integration process is by Nemanich and Keller (2007). Their study tested the different effects of transformational leadership on employee behaviour after the acquisition. They argued that transformational leadership in an acquisition will be positively related to acquisition acceptance, to higher subordinate performance and to higher job satisfaction among employees. Their field study of employees demonstrated that there are positive relationships between transformational leadership and acquisition acceptance, subordinate performance and satisfaction. Their study focused on how transformational leadership affects individuals during an acquisition and how leaders can alleviate the negative effects on employee behaviour caused by the implications of acquisition integration such as uncertainty and change.

However, it should be underlined that the above studies only view leadership from the human resources school of thought perspective. Their main focus is on how leaders can alleviate stress, alter the perceptions of employees and guide them through this post-acquisition integration change. The major assumption of these studies is that without employee support the expected performance from an acquisition is rarely realised. Although this is a valid argument and has contributed to the understanding of what leaders can do to ensure employee integration, it does not give an insight on the leadership-performance relationship. Performance in the studies analysed above is not addressed directly but is expressed in terms of employee satisfaction and acceptance of the change. Nonetheless, these studies support Javidan's *et al* (2004) assertion that there is no study assessing the attributes of leaders that contribute to enhanced post-acquisition organisational performance.

Overall, it is vital to study the role of leadership in such a context because it can determine the outcome of an acquisition. As post-acquisition integration is primarily concerned with the integration of organisational cultures and employees, leaders can have a crucial role in this process, facilitating the integration and generating increased organisational performance by realising the expected value and synergy. However, as the analysis of the literature showed, there are still inconsistencies in studying the relationship between leadership and post-acquisition organisational performance; thus, there is a great necessity for a more coherent framework of study.

4.3 The role of leadership in the post-acquisition integration context

The aim of this study is to investigate leadership at the corporate level. Therefore, only the importance of the CEO leadership will be discussed. The importance of CEO leadership is not a new consideration in the management literature (Waldman, 2004). It has been recognised as an essential ingredient for the continual revitalisation of organisations (Tichy and Devanna, 1990). Further there is growing evidence that CEO leadership qualities can predict firm performance (Bass *et al*, 2003). Jemison and Sitkin (1986) observed that poor performance of acquisitions is associated with a void in leadership. Haspeslagh and Jemison (1991) referred to this poor performance as the direct result of the leadership vacuum based on problematic leadership. Therefore, it is important to place these studies in the context of acquisitions and investigate the role of leadership in such a context. In this case, leadership is viewed as a logical driver associated with the post-acquisition integration process (Waldman, 2004).

Morosini *et al* (1998) stressed that leadership is vital in the context of acquisitions and advocated the elements of charismatic and transformational leadership paradigm. Marks and Mirvis (2001) discussed the importance of positive vision coupled with an articulation of the principles, values and priorities behind M&As. Gadiesh *et al* (2002) argued that the content of a post-acquisition vision must clearly specify its purpose and what the acquisition plans to achieve. Through this articulation, the leader will ensure the harmonisation of the integration process. Ashkenas and Francis (2000) stated that guiding the integration process takes a new type of leader, someone who can solve complex situations quickly, relate to many levels of authority smoothly and bridge gaps in culture and perceptions. Most theories conclude that an effective leader will be able to influence his followers towards achieving a goal (Elenkov *et al*, 2005; Ireland and Hitt, 2005; Stahl and Voigt, 2008). This leader will provide vision and inspiration to his followers and create a structure and a culture that will enable and facilitate various positive behaviours (Nemanich and Keller, 2007) as those needed for integrating the two organisations.

Other behaviours and attributes are, also, relevant in CEO leadership to enhance post-acquisition organisational performance. Morosini *et al* (1998) as well as Sitkin and Pablo (2004) stressed the importance of leading by example at various hierarchical levels so as to build trust and influence employees to achieve the intended objectives. Gadiesh *et al* (2002) argued that continuous, enthusiastic 'crusading' is needed to get the vision across, implying that the CEO should stay engaged in the process of maintaining good relationships, delegating responsibilities and communicating to the subordinates every decision being made in this change process. Morosini *et al* (1998) argued that CEO's should provide clear, motivational vision that energises individuals and focuses them on what is expected in terms of a desired end state, as well as a conciliatory process. Clear vision is essential in the post-acquisition integration process in order to ensure the ultimate integration of cultures (Waldman, 2004). Bijlsma-Frankema (2001) argued that a participatory style of leadership will be preferred over an authoritarian in the attempt to integrate the organisational cultures of the two organisations.

Leadership can be the key determinant or input influencing the outcome of a major strategic decision. Ashkenas and Francis (2000) argued that it is the leader's position of authority that facilitates the integration process. The role of leadership in acquisitions clearly draws upon particular sets of value-based and knowledge-based capabilities that can help the organisation to be more effective (Sitkin and Pablo, 2004). Kotter (1990) argued that leadership in acquisitions facilitates coherence and adaptability. Hitt *et al* (2001) similarly argued that with respect to achieving synergy in post-acquisition integration, managerial actions are an essential foundation of the value-creation process. Therefore, it is important to investigate the attributes that make an effective leader in this context as effective leadership is needed to integrate the two organisations effectively (Heskett and Kotter, 1992; Vasilaki *et al*, 2006).

The post-acquisition integration process is a complex change process, requiring different types of leadership (Evans and Pucik, 2005). If these different styles and attributes are not recognised then, it could be argued that similar problems as those mentioned in this study will arise (see section 2.5 and 2.6), leading to the failure of the acquisitions process. Acquisitions are an effective way to improve the competitive position of a company (Lei and Hitt, 1995) and therefore, leaders should exhibit the right attributes and skills in different acquisition conditions in order to achieve the intended benefits. CEOs have an individual stock of skills, knowledge and resources that can shed light on the success of the post-acquisition performance (Buchholtz *et al*, 2003). Kiessling and Harvey (2006) argued that leaders are viewed as critical to enhancing post-acquisition performance as they possess knowledge critical to ongoing business operations. Leaders can affect performance as they have the ability to motivate and direct these knowledge assets to their greatest potential. Finally, Goldman (2007) argued that acquisition success is also related to the strategic thinking capabilities of leaders. All these arguments point toward the important role of leadership in the acquisition context as it is vital for ensuring acquisition success. It is the leader that can successfully implement this change and it is imperative to investigate the attributes that help the leader to productively integrate the two organisations, the acquirer and the target.

Overall, the leader's style is a central determinant of how an organisation will be managed (Vasilaki *et al*, 2006). Each leadership style creates a different dominant logic for the organisation. This dominant logic includes the way the integration process is implemented as well as the decision-making schema (Malekzadeh and Nahavandi, 1993). In return, it could be argued that this dominant logic influences the subsequent performance of the acquisition.

4.4 Theory of the Full Range Leadership

The theory of the full range leadership is based on the seminal work of Burns (1978). Burns (1978) developed the comparison of transactional versus transformational leadership. Burns (1978) model represents leadership as having both lower- and higher-order changes in subordinates (Bass *et al*, 1987). A lower order of change involves leadership as an exchange process, a transactional relationship in which followers' needs can be met if their performance is contracted with their leader. This form of leadership depends on the leader's power to reinforce subordinates for their successful enforcement of the bargain (Bass *et al*, 1987). By contrast, a higher order of change is more related to the transformational leadership. Burns (1978) conceptualised the transformational leader as one who motivates followers to work for transcendental goals and for higher-level self-actualising needs, instead of working through simple exchange relationships with his/her followers (Bass, 2006).

For Burns (1978) these two types of leadership behaviours were separate and existed at opposite ends of the spectrum, the opposite ends of the continuum. In other words, the leader was either transactional or transformational. However, expanding on Burn's (1978) work, Bass (1985) conceived that transformational and transactional leadership were not two distinct behaviours. Rather, such behaviours existed together and in some instances complemented each other (Elenkov *et al*, 2005). The two leadership styles differ in relation to the process by which the leader motivates subordinates as well as in the types of goals set. While conceptually distinct, transformational and transactional leadership may both be utilised by the same manager in different amounts and intensities while also complementing each other (Bass, 1985, 1998; 2006; Howell and Avolio, 1993; Waldman *et al*, 2001). This stream of research is known as the 'full range of leadership' perspective (Avolio *et al*, 1999; Avolio and Bass, 2004).

4.4.1 Transactional Leadership

Transactional leadership theories are all founded on the idea that leader-follower relations are based on a series of exchanges or implicit bargains between leaders and followers (Den Hartog *et al*, 1997). The general notion is that, when the job and the environment of the follower fail to provide the necessary motivation, direction and satisfaction, the leaders, through his or her behaviour, will be effective by compensating for the deficiencies. The leader clarifies the performance criteria, in other words what is expected from subordinates, and what they receive in return (House *et al*, 1991).

A transactional leader is one who operates within an existing system or culture (as opposed to change them) (Waldman *et al*, 2001) by attempting to satisfy the current needs of followers by focusing on exchanges and contingent reward behaviour and paying close attention to deviations, mistakes or irregularities and taking action to make corrections (Bass, 1985; Burns, 1978). Transactional leadership can act as to strengthen existing structures, strategies and culture in an organisation (Trice and Beyer, 1993). Waldman *et al* (2001) argued that transactional leadership represents an active form of leadership that may be a successful ingredient of organisational effectiveness. That is, leaders who help to shape strategies, structures, reward subordinates efforts and commitment and take actions to correct mistakes and deviations from expectations should help to foster better organisational performance (Boal and Hooijberg, 2000; Ireland and Hitt, 2005). By doing so, a transactional leader manages the mundane, day-to-day events that comprise the agendas of many leaders. Lowe's *et al* (1996) meta-analysis provided overall support for the performance stimulating potential of transactional leaders.

Transactional leaders identify and clarify for subordinates their job tasks and communicate to them how successful execution of those tasks will lead to receipt of desirable job rewards (Avolio *et al*, 1999). Transactional managers determine and define the goals and work that subordinates need to achieve, suggest how to execute their tasks and positive feedback. This process should assist employees in becoming confident about meeting their role requirements (Dubinsky *et al*, 1995). Transactional leaders also recognise the immediate needs of their subordinates and communicate to employees how those needs will be met through effective performance. Previous investigations conclude that transactional leadership can have a favourable response of employees (Bass, 1990).

Transactional leadership refers to the exchange relationship between leader and follower to meet their self-interests. It may take the form of contingent reward in which the leader clarifies for the follower through direction or participation what the follower needs to do to be rewarded for the effort (Bass, 1999). It may take the form of active management-by-exception, in which the leader monitors the follower's performance and takes corrective action if the follower fails to meet standards. Or it may take the form of passive leadership, in which the leader practises passive managing-by-exception by waiting for problems to arise before taking corrective action.

Although transactional leadership is effective in certain situations, there is increasing evidence that it is not an effective leadership model for achieving long-term objectives. Followers are motivated to perform certain tasks, contingent on rewards, but transactional leadership fails to motivate followers to perform beyond their basic job requirements. It is essential to understand that human behaviour is often based on a series of exchanges, yet the transactional leadership model is too simplistic and often offers no explanation for intrinsic motivation. Furthermore, although transactional leadership focuses on the exchange between leaders and followers, it is the leader who has the power and controls the terms of the relationship (Bass, 2006).

4.4.2 Transformational Leadership

Transformational leadership has emerged as one of the most popular approaches to understanding leader effectiveness. These leaders are also referred to as charismatic leaders (Avolio and Bass, 2004). Transformational leadership theory rests on the assertion that certain leaders enhance commitment to a well-articulated vision and inspire followers to develop new ways of thinking about problems (Bennie and Nanus, 1985; Piccolo and Colquitt, 2006). Burns (1978) conceptualised the transformational leader as one who motivates followers to work for transcendental goals and for higher-level self-actualisation needs, instead of working through simple exchange relationships with his/her followers. Transformational leadership refers to individuals who recognise the existing needs of potential followers, but go further, seeking to satisfy higher needs (Howell and Shamir, 2005). The real essence of transformational leadership is that these leaders 'lift ordinary people to extraordinary heights' (Boal and Bryson, 1988:11), and cause followers to 'do more that they are expected to do' (Yukl, 2006:272), and perform beyond expectations (Bass, 1985).

Transformational leadership elevates the follower's level of maturity and ideals as well as concerns for achievement, self-actualisation and the well-being of others, the organisation and the society. Idealised influence and inspirational leadership are displayed when the leader envisions a desirable future, articulates how it can be reached, sets an example to be followed, sets high standards of performance, and shows determination and confidence (Bass, 1998). Bass (1985) argued that managers that exhibit transformational leadership raise subordinate's awareness of the importance and value designated outcomes, get employees to transcend their own self-interests for the sake of the group or organisation and change or increase subordinates' needs. Through such means, employees' motivation and self-confidence are enhanced. Transformational leadership has evolved to describe four dimensions of leader behaviour (Avolio *et al*, 1999; Bass, 1985):

- Idealised behaviour is the degree to which leaders behave in charismatic ways that cause followers to identify with them,
- Inspirational motivation is the degree to which leaders articulate visions that are appealing to followers,
- Intellectual stimulation is the degree to which leaders challenge assumptions, take risks and solicit followers' ideas,
- Individualised consideration is the degree to which leaders attend to followers' needs, act as mentors or coaches, and listen to followers concerns.

Idealised behaviour is concerned with the behaviour of the leaders that result in them being a role model for their followers (Judge and Bono, 2000). The leaders are admired, respected and trusted (Bass, 2006). Leaders with idealised influence exhibit extraordinary capabilities (Waldman and Yammarino, 1999). This is a dimension of leadership power whereby the behaviour exhibited is enriching and helps build self-confidence. Idealised behaviour in referred to as 'attributed charisma' (Bass, 2006) as it focuses on the development of the 'other' (Shamir *et al*, 1993).

Inspirational motivation is concerned with the leader setting higher standards, thus becoming a sign of reference (Bass, 1985). Such leaders provide an emotional appeal to increase awareness and understanding of mutually desired goals among followers (Bass, 1985). Inspirational leaders behave in ways that motivate and inspire those around them by providing meaning and challenge to followers' work (Bass, 2006). Such leaders also demonstrate self-determination and commitment to attaining objectives and present an optimistic and achievable view of the future (Dubinsky *et al*, 1995).

Intellectual stimulation is concerned with challenging the followers to think critically. Such leaders provide followers with challenging new ideas and encourage them, to break away from the old ways of thinking (Bass, 1985). As a result followers, under intellectually stimulating leaders who are likely to alter their ways of thinking, are critical in their problem solving and tend to have enhanced thought processes (Dubinsky *et al*, 1995). The transformational leader engaging in this role is responsible for change in followers of problem awareness and problem solving, of thought and imagination, and of beliefs and values, rather than arousal and change in immediate action (Bass, 1999).

Individualised consideration focuses on the leader member exchange, a process in which a supervisor consults with each of his subordinates individually (Bass, 1985). Individualised consideration is concerned with developing followers by coaching and mentoring (Bass, 1985). A leader displaying individualised consideration pays special attention to each individual's abilities, aspirations and needs to enhance follower's confidence in responding to problems facing them and their organisations (Avolio *et al*, 1999) By providing mentoring and one-to-one communication, such leaders are able to build a sense of determination and self-confidence in their followers (Bass, 1998) as well as provide opportunities for learning (Bass, 1985).

Transformational theories predict followers' emotional attachment to the leader and emotional attachment and motivational arousal of followers as a consequence of the leader's behaviour (House *et al*, 1991). Hater and Bass (1988:695) stated: 'The dynamics of transformational leadership involve strong personal identification with the leader, joining in a shared vision of the future, or going beyond the self-interest exchange of rewards for compliance'. Transformational leaders broaden and elevate the interests of followers, generate awareness and acceptance among the followers of the purposes and mission of the group and motivate followers to go beyond their self-interests for the good of the group (Yammarino and Bass, 1990). Yammarino and Bass (1990:151) also noted 'the transformational leader articulates a realistic vision of the future that can be shared, stimulates subordinates intellectually and pays attention to the differences among the subordinates'. By defining the need for change, creating new visions, mobilising commitment to these visions, leaders can ultimately transform the organisation (Den Hartog *et al*, 1997). According to Bass (1985) this transformation of followers can be achieved by raising the awareness of the importance and value of designed outcome, getting followers to transcend their own self-interests and altering or expanding followers' needs. Strong leadership positively affects satisfaction and performance of individuals, teams and organisations (Arnold *et al*, 2001). Transformational leadership has also been found to lead to higher levels of organisational commitment and is associated with business unit performance (Arnold *et al*, 2001).

4.4.3 Passive Leadership

The passive leader avoids decision making and supervisory responsibility (Yammarino and Bass, 1990). The passive leader is inactive rather than reactive or proactive (Den Hartog *et al*, 1997). Bass (1990) concluded that there is a negative association between passive leadership and a variety of subordinate performance, effort and attitudinal indicators.

Passive leaders abdicate their responsibility and avoid making decisions (Bass, 1990). Subordinates working under this kind of supervisor basically would be left to their own devices to execute their job responsibilities. Typically, their manager is relatively inattentive, indifferent, frequently absent and uninfluential (Dubinsky *et al*, 1995). Consequently, employees may need to seek assistance, support, direction and supervision from such alternate sources as other managers, peers, other company personnel and perhaps even extra-organisational members. In essence, passive leadership otherwise referred to as laissez-faire leadership entails basic job inactivity (Bass, 1990).

Carried to its extreme, passive leadership embodies a 'sink or swim' strategy. Although passive leadership is observed infrequently in industry (Bass and Avolio, 1994), Bass (1990) found that there are managers that still exhibit it in varying amounts. Prior research has found that passive or laissez-faire leadership has an adverse effect on work-related outcomes of employees (Bass, 1990; Yammarino and Bass, 1990).

4.5 The association between leadership and organisational performance

The leader has been likened to a 'saviourlike essence in a world that constantly needs changing' (Barker, 1997:348). Therefore, it could be concluded that leadership has a significant impact on performance. Thomas (1988) and Yukl (2006) argued that leadership influences organisational outcomes. Similarly, House and Aditya (1997) found that leader differences do account for performance variations within firms to a substantial degree. The quality of leadership and strategy is widely viewed as instrumental in maintaining and improving competitive performance (O'Regan and Ghobadian, 2004). Leaders, as the key decision-makers determine the acquisition, development and deployment of organisational resources, the conversion of these resources into valuable products and services and the delivery of value to organisational stakeholders (Zhu *et al*, 2005). Thus, they are the potent sources of sustained competitive advantage. Hooijberg *et al* (1997) argued that leaders through having the cognitive and behavioural complexity and flexibility will achieve the organisation's objectives and hence, increase organisational performance.

Many empirical studies and a number of meta-analyses have found positive relationships between transformational leadership and a range of outcome measures (De Hoogh *et al*, 2004). The criterion measures that have been studied most often are subordinates' satisfaction, commitment and perception of leader effectiveness (e.g. Lowe *et al*, 1996; Thomas, 1988; Yukl, 2006). Other measures include business-unit performance (e.g. Howell and Avolio, 1993) and organisational net profit margin (e.g. Waldman *et al*, 2001), trust in management and colleagues (Den Hartog *et al*, 2002) and organisational citizenship behaviour (Podsakoff *et al*, 1990).

The majority of the studies use Bass's paradigm of transformational, transactional and laissez-faire leadership to ascertain the relationship between leadership and performance. These studies employ the Multifactor Leadership Questionnaire (MLQ) as the instrument to assess the relationship between each leadership style and several outcomes. Evidence exists indicating that each of the transformational leadership factors will positively predict performance (Howell and Avolio, 1993). Studies describe correlations in the range of .30 to .75 between transformational leadership and various outcome measures (De Hoogh *et al*, 2004). Lowe *et al* (1996) and Jacobsen and House (2001) have confirmed positive relationship between transformational leadership and performance reported in the literature. The third meta-analysis of the transformational and transactional leadership conducted by DeGroot *et al* (2000) reconfirmed the positive relationship between ratings of charismatic-transformational leadership and performance. Ireland and Hitt (2005) found that transformational leadership in an organisation results in innovative strategic thinking and rapid acceptance of organisational changes that are required to enhance firm performance.

Bass (1998) found that leadership has a strong positive relationship with a range of outcome variables, including measures of organisational productivity as well as subjective evaluations which include greater job satisfaction and commitment. De Hoogh *et al* (2004), also, found a positive relationship between charismatic leadership and performance based on multiple metrics. They reported that charismatic leadership explained perpetual performance better under conditions of environmental uncertainty than under conditions of environmental certainty. This is consistent with Bass's (1999) findings that contingencies in the environment, organisation, task, goals and relationships affect the utility of transactional and transformational leadership. Transformational leadership hence, adds substantially to organisational performance (Yammarino *et al*, 2001). Leadership in such a situation will provide new solutions, stimulate rapid response, develop subordinates and provide reasons for coping (Bass, 1985; Khoo and Burch, 2008; Xenikou and Simosi, 2006). Quinn and Hall (1983) argued that in environments characterised by high intensity and high uncertainty, leadership which comes to the fore tends to be idealistic and transformational.

Therefore, it can be concluded that leadership does enhance organisational performance. Moreover, attributes of transformational and charismatic leadership are positively associated with increased organisational performance whereas; transactional leadership is viewed as a means of increasing short-term performance and might have a negative association with performance outcomes (Zhu *et al*, 2005). In their study, which had the biggest sample so far of 1,050 CEOs employing the MLQ, Zhu *et al* (2005) found that transformational leadership is significantly related to human-capital enhancing human resources. They also found that transformational leadership has a positive association with organisational outcomes as the CEO plays an important part in the company's success and a transformational CEO motivates and inspires other organisational members to excel towards both organisational and individual excellence.

However, transformational leadership has been mostly studied in stable environments. Research investigating Bass's classification of different leadership styles in dynamic and unstable environments is fragmented. This type of research has started evolving in the last ten years and there are a few studies that investigate Bass's theory on performance in unstable and uncertain environments. In these studies it was observed that the results are not consistent. There is a strong recognition that transformational leadership will emerge in contexts characterised by high uncertainty and dynamism (Bass, 1999). However, studies investigating the specific transformational leadership attributes have generated different results. These studies will be analysed below. At this point, it is important to mention that previous studies, investigating the effect of leadership on performance, have mostly focused on transformational leadership acknowledging it as the sole leadership style that can positively enhance organisational performance.

One of the most significant studies was conducted by Waldman *et al* (2001). They tested the effect of leadership in uncertain and unstable environments using the MLQ. They found only marginal and statistically insignificant relationships between transactional or transformational leadership and environmental uncertainty. Their results contradict the theory on transformational leadership. Avolio and Bass (2004) argued that transformational leadership is critical to the enhancement of performance in times of turbulence in organisations. Similarly, as mentioned before, Quinn and Hall (1983) argued that leadership in these environments tends to be idealistic and transformational. However, the results from Waldman's *et al* (2001) study indicated that transformational leadership is hard to emerge in environments characterised by high uncertainty and instability.

However, Bass's *et al* (2003) study of leadership and performance again in similar uncertain environments found that both active transactional and transformational leadership is successful in these contexts. These leaders will achieve potency and cohesion among their groups and business units and therefore, lead to increased performance in the organisation. Similarly, Eisenbach *et al* (1999) found that transformational leaders through their adaptability, communication and mentoring are more capable of enacting change and guide organisations in continuous organisational change environments. Finally, Marion and Uhl-Bien (2001) also found positive significant results between transformational leadership and performance in unstable environments. It is important to mention that the above studies used all transformational leadership attributes employing the MLQ and tested each one of them against organisational performance in uncertain environments. Their results indicated that all four attributes of transformational leadership, as mentioned in section 4.4.2, were positively associated with performance.

Nonetheless, the studies investigating the effect of leadership are still limited and have resulted in contradicting findings. Some studies found positive results whereas, some others only marginal correlations. This indicates that there is still a need to investigate further the effect of leadership on performance in uncertain and unstable environments. Moreover, studies testing this relationship in the context of acquisitions are few and only limited in theoretical and literature review studies. Therefore, there is a great need to investigate the effect that the different leadership styles have on performance in an acquisition context, where high levels of ambiguity, uncertainty and instability are inherent to the nature of this strategy. It is also significant to test how each of the leadership attributes are influencing performance in the context of acquisitions. This study will test all the leadership attributes and traits in order to derive conclusions on which of these leadership attributes are enhancing or impeding post-acquisition organisational performance. Hence, it will contribute to both acquisition and leadership literatures and will cover the gap presented in both of them. Chapter 3 established that there are only a few studies that investigate leadership in the acquisition context (see table 3.2) and this chapter discussed that there are only few studies that investigate leadership in unstable environments. Thus, this study synthesises these two literatures to bridge the gaps. Section 4.6 discusses the leadership approach for this study summarising the discussion provided in sections 4.2-4.5 and section 4.7 provides the synthesis of the two literatures by providing the hypotheses of this study that link leadership to the acquisition context.

4.6 Leadership approach for this study

The full range of leadership proposes that transformational and transactional leadership styles can be exercised by the same leader and therefore, they are not two distinct leadership styles, rather they are complementary. Bass (1990) claimed that the transactional-transformational model is a new paradigm, neither replacing nor explained by other models such as the relations-oriented/task-oriented leadership model. Apart from the transactional-transformational model, Bass (1990) added the laissez-faire leadership style to assess leaders that demonstrate inactive and passive management, who do not contribute at meeting organisational goals and outcomes. Therefore, his perspective is called the full range of leadership as it integrates ideas from trait, behaviour and contingency approaches of leadership (Bryman, 1992; Waldman and Yammarino, 1999).

Some authors describe concepts similar to transformational leadership as charismatic, inspirational or visionary leadership (Bryman, 1992). In all definitions transformational, charismatic and visionary leaders are those who can successfully change the status quo in their organisations by displaying the appropriate behaviours at the appropriate stage in the transformation process (Eisenbach *et al*, 1999). Although the terminology used by these authors is different, more similarities than differences seem to exist between these views of the phenomenon of leadership.

This study will employ Bass's (1985; 1990; 1999) 'Full Range Leadership' theory to assess the relationship between leadership and post-acquisition organisational performance. As discussed in the previous section, there is a significant number of studies employing the Bass's theory to assess the link between leadership and organisational performance. Therefore, it is appropriate for this study to employ a similar approach in assessing the relationship between leadership and post-acquisition organisational performance.

4.7 Hypotheses Development- *Leadership Styles*

Section 1.3 presented the deductive model for this study and section 1.4 outlined the aims and objectives of this research. In section 3.6 the first two hypotheses that concerned the dynamics and the strategies that take place in the post-acquisition integration process were presented. This section presents the hypotheses as derived from both the post-acquisition integration and leadership literatures. In effect, this section integrates these two literatures in providing the hypotheses of the study that will test the effect that different leadership styles have on post-acquisition organisational performance under different settings.

4.7.1 Full range leadership and acquisition performance

Hypothesis three investigates the association between the leadership styles and the post-acquisition organisational performance. In order to test which leadership style is more effective in the acquisition context, this study employed Bass's (1985) classification of leadership styles. The following sections will analyse the effect that each leadership style might have on acquisition performance and accordingly, will derive the relevant hypotheses.

4.7.1.1 Transformational Leadership

Post-acquisition integration is a complex and dynamic process. A transformational leadership style facilitates the change process by promoting the creation of a culture that encourages team-decision making and behavioural control (Manz and Sims, 1991). The successful leader will create a system, an organisational culture, that is neither too rigid, over-controlling the change process, nor too chaotic, so the change process falls apart (Brown and Eisenhardt, 1997). Throughout the transformation process, the leader should set high performance expectations and reward behaviours that are directed toward fulfilment of the vision (Eisenbach *et al*, 1999). It is also important that the leader models the way and the behaviours that are required to institutionalise the change and sets the standards for the rest of the organisation to emulate (Kouzes and Posner, 2002).

Transformational, charismatic and visionary leaders can successfully change the status quo in their organisations by displaying the appropriate behaviours at the appropriate stage in the transformation process (Eisenbach *et al*, 1999). When there is a realisation that the old ways no longer work, leaders may undertake the task of developing an appealing vision of the future. A good vision provides both a strategic and a motivational focus. It provides a clear statement of the purpose of the organisation and is, at the same time, a source of inspiration and commitment. Transformational leaders have the 'capacity to create and communicate a compelling vision of a desired state of affairs (Bennis and Nanus, 1985). They can gain understanding and commitment to their vision from their followers to harness the energies and abilities of their followers making it possible for the dream to come true (Bennis, 2004).

Transformational leadership is particularly relevant in situations of change, such as acquisitions, and has been linked to motivation and creativity (Shin and Zhou, 2003), organisational performance (Jung and Avolio, 1999) and innovation and effectiveness (Jung *et al*, 2003). It is argued that the extent to which a transformational leader intellectually stimulates, motivates and inspires will have an influence on how the integration process will be managed and hence, a direct result on increasing post-acquisition organisational performance. This fundamental influence of transformational leadership on the managing of the post-acquisition integration process leads to the following hypothesis:

Table 4.1: Hypothesis 3(a)

Hypothesis 3(a)
3(a) There is a positive relationship between post-acquisition organisational performance and the elements of transformational leadership

4.7.1.2 Transactional Leadership

Transactional leadership refers to the exchange relationship between leader and follower to meet self-interests. It may take the form of contingent reward in which the leader clarifies for the follower through direction or participation what the follower needs to do to be rewarded for the effort (Bass *et al*, 2003; Judge and Piccolo, 2004). It may also, take the form of active management-by-exception, in which the leader monitors the follower's performance and takes corrective action if the follower fails to meet the standards (Bass, 1999). Transactional leaders serve to recognise and clarify the role and task requirements for the subordinates' reaching the desired outcomes. This gives the subordinates sufficient confidence to exert the necessary effort. Transactional leaders also recognise what the subordinates need and want and clarify how these needs and wants will be satisfied if the necessary effort is expended by the subordinate (Bass, 1985).

Although transactional leadership is effective in certain situations, there is increasing evidence that it is not an effective leadership model for achieving long-term objectives (Jung and Avolio, 1999). Followers are motivated to perform certain tasks, contingent on rewards, but transactional leadership fails to motivate followers to perform beyond their basic job requirements. It is essential to understand that human behaviour is often based on a series of exchanges, yet the transactional leadership model is too simplistic and often offers no explanation for intrinsic motivation. Furthermore, although transactional leadership focuses on the exchange between leaders and followers, it is the leader who has the power and controls the terms of the relationship (Agle *et al*, 2006).

Transactional leaders set goals and articulate explicit agreements. However it could be argued that in the post-acquisition integration process context transactional behaviours would inhibit shared leadership and, in particular when organisational cohesion among the combining firms is low, discourage the development of informal leadership. This might lead to problematic integration and low organisational performance. Therefore, the following hypothesis is:

Table 4.2: Hypothesis 3(b)

Hypothesis 3(b)
3(b) There is a negative relationship between post-acquisition organisational performance and the elements of transactional leadership

4.7.1.3 Passive Leadership

The third distinct leadership style according to Bass (1985) is the laissez-faire leadership. Passive leaders abdicate their responsibility and avoid making decisions (Bass, 1990). It represents a passive approach by leaders, bordering on indifference, in relation to both task and staff concern. It can be summarised as a behavioural style where the leaders abdicate responsibility to allow their subordinates to 'do their own thing' (Yukl, 1999). Therefore, it could be argued that laissez-faire leadership when exercised in the context of post-acquisition integration process will yield negative outcomes which will not fully capture the expected value creation of the synergy. Hence, the following research question was formulated:

Table 4.3: Hypothesis 3(c)

Hypothesis 3(c)
3(c) There is a negative relationship between post-acquisition organisational performance and the elements of passive leadership

4.7.2 The association between transformational leadership, relatedness and acquisition performance

While the relationship between leadership and performance is present, it is important to identify other boundary variables that potentially have an impact on this relationship. Relatedness, in terms of organisational, strategic and culture fit, has been found to have a moderating effect in studying the influence that several independent variables have on acquisition performance (Bergh, 2001; Child *et al*, 1999; Hayward, 2002; Krishnan *et al*, 2007; Lubatkin *et al*, 2001; Stahl *et al*, 2006; Zollo and Singh, 2004). Therefore, studying this moderating effect will allow for a better judgement of the relationship between leadership and performance. This implies that the actual effect that leadership has on post-acquisition organisational performance will be moderated by organisational, strategic and organisational culture fit. It was argued that a high degree of relatedness can facilitate the integration process and thus, enable the emergence of a transformational leader. This moderating effect of relatedness is presented in hypothesis four:

Table 4.4: Hypothesis 4

Hypothesis 4
Relatedness will moderate the relationship between transformational leadership and post-acquisition organisational performance

4.7.3 Testing the deductive model

The main aim of this study is to assess the role of leadership under different acquisition conditions. In order to achieve this objective a deductive model, shown in figure 1.1, was developed. The aim of this deductive model is to investigate under which circumstances leadership emerges to influence post-acquisition organisational behaviour. Objectives two and three of this study, presented in section 1.4, intend to investigate the role of leadership in different settings. The following sections refer to the assessment of the deductive model under these different conditions.

4.7.3.1 Market Relatedness

The fifth hypothesis of the study is related to the market relatedness of the acquiring organisation and the target. Although in section 2.6 it was mentioned that both domestic and cross-border acquisitions face the same challenges when the post-acquisition integration process is concerned, it could be argued that the integration process in cross-border acquisitions can be more delicate and complex (Barkema and Vermeulen, 1998; Harzing, 2004; King *et al*, 2008; Shimizu *et al*, 2004). This is due to the unique characteristics of cross-border acquisitions that are embedded mainly on the integration of national cultures of the two organisations as well as the organisational culture, which is influenced by the norms, beliefs and influences embedded in the national culture (Teerikangas, 2007).

Hitt and Pizano (2004) argued that cross-border acquisitions present several unique and valuable opportunities to companies. These opportunities are potentially more valuable than in domestic acquisitions because of the unique cultural and institutional differences that often exist between the firms involved in these transactions. Therefore, companies should emphasise on achieving the harmonisation of the integration process in these acquisitions so as to realise the synergy, create value and contribute more strongly to a firm's competitive advantages. Morosini *et al* (1998) stressed the importance of elements of transformational leadership in his consideration of cross-border post-acquisition integration. Waldman (2004) argued that this should not be surprising given the likelihood of cultural differentiation in such acquisitions. Therefore, hypothesis 5(a) depicts the importance of transformational leadership in cross-border acquisitions. The other two leadership styles, transactional and passive leadership, have been found not to contribute to organisational performance in dynamic and uncertain environments and therefore, in the context of acquisitions hypotheses 5(b) and 5(c) were developed.

Table 4.5: Hypothesis 5

Hypothesis 5
5(a) Transformational leadership will have a stronger relationship with post-acquisition organisational performance in cross-border acquisitions than in domestic acquisitions
5(b) Transactional leadership will have a negative relationship with post-acquisition organisational performance in both domestic and cross-border acquisitions
5(c) Passive leadership will have a negative relationship with post-acquisition organisational performance in both domestic and cross-border acquisitions

4.7.3.2 Industry Sector

The sixth hypothesis is related to the influence that the acquirer's source of competitive advantage can have on the leadership-performance relationship. The differing nature of service and manufacturing firms suggested that this classification might be used as an elementary proxy for the derivation of competitive advantage from human or capital assets (Schoenberg, 2004). Service organisations are characterised as highly labour intensive (Epsom, 2000). Greenwood *et al* (1994) and Ashkanasy and Holmes (1995) have highlighted the length and complexity of the integration process in this context. Service firm acquisitions present a distinctive managerial challenge. They are a rapid means of gaining access to new sources of knowledge and client relationships, which are the key value creating resources of a services firm (Lowendahl, 1997).

One the other hand, manufacturing firms derive their competitive advantage from capital assets, as in capital-intensive manufacturing industries, any value created by the acquisition will tend to come from the restructuring of the assets or economies of scale (Porter, 1987). Manufacturing industries can be argued to be mature industries which are characterised by technological complexity and reliance on specialised skills and expertise (Ranft and Lord, 2002). This reliance on resources and capital assets required to compete may not allow firms to develop all the capabilities and technologies they need to stay competitive (Amabile *et al*, 1996). Therefore, acquisitions in this case seem the only way of achieving competitiveness. However, due to their structure and nature (Wolfe, 1994) leadership may not be an influential factor enhancing the success of acquisitions in this industry. Yammarino and Bass (1990) argued that in manufacturing organisations transactional leadership tends to be used most frequently.

Hence, it could be argued that the effect of transformational leadership on the post-acquisition organisational performance will be more evident in the service industries than in the manufacturing industries and this leads to the development of hypothesis 6(a). At the same time, as the literature postulates transactional leadership and passive leadership should be avoided in dynamic environments as they will not generate and yield the expected results, therefore, hypotheses 6(a) and 6(b) were developed.

Table 4.7: Hypothesis 6

Hypothesis 6
6(a) Transformational leadership will have a stronger relationship with post-acquisition organisational performance in acquisitions in service firms than in acquisitions in manufacturing firms
6(b) Transactional leadership will have a negative relationship with post-acquisition organisational performance in acquisitions in both manufacturing and service firms
6(c) Passive leadership will have a negative relationship with post-acquisition organisational performance in acquisitions in both manufacturing and service firms

4.7.3.3 Degree of Integration

Pablo (1994) distinguished between two levels of integration. At a low level of integration, a limited degree of technical and administrative changes share financial risk and resources, while standardising basic management systems and processes to facilitate communication. At the highest level, integration involves sharing all types of resources, along with generalised adoption of the acquirer's operating, control and planning systems and procedures, combined with deep structural and cultural absorption of the target firm (Chakrabarti and Mitchell, 2005).

The different dynamics that exist in different degrees of integration can have an influence on the performance of an acquisition. It could be argued that in higher levels of integration more conflicts and clashes will arise as the two organisations are coming together integrating different departments, practices and structures. Therefore, the need for a transformational leader who will articulate a clear vision, inspire and motivate is more evident under these circumstances. Therefore, hypothesis 7(a) encapsulates the need for a transformational leader in the integration context. At the same time, transactional and passive leadership styles should be avoided in acquisitions and this leads to hypothesis 7(b) and 7(c).

Table 4.8: Hypothesis 7

Hypothesis 7
7(a) Transformational leadership will have a stronger relationship with post-acquisition organisational performance in acquisitions with a high degree of integration than in acquisitions with a low degree of integration
7(b) Transactional leadership will have a negative relationship with post-acquisition organisational performance in acquisitions regardless the level of integration
7(c) Passive leadership will have a negative relationship with post-acquisition organisational performance in acquisitions regardless the level of integration

4.8 Significance of the study

The focus of this doctoral research is the relationship between leadership styles and the performance of acquisitions. The research has two aims in relation to the existing acquisitions literature. First, the study aims to further extend the process school of thought by investigating the role of leadership under different acquisition contexts. In achieving this, the study has taken into account other contextual factors that can potentially facilitate or impede the effective role of the leader. These variables are the motives for the acquisition, relatedness, previous acquisition experience, transfer of resources, capabilities and knowledge as well as the relative size of the two organisations. These characteristics were derived directly from the analysis of the process school of thought in section 3.3.4. This study also draws from the organisational behaviour school of thought as well as the culture school of thought in the attempt to explain the particular leadership attributes that can enhance post-acquisition organisational performance under different acquisition contexts. The second aim of the present research is to further integrate the study of leadership into the literature of acquisition process by investigating the extent that the relationship between leadership style and performance in contingent upon the degree of integration adopted by the acquiring firm.

These two objectives contribute to extending the literature on acquisitions as well as the literature on the leadership-performance relationship in dynamic environments. It is crucial to investigate the role of leadership in such contexts as leaders can be very influential and directly involved in increasing the performance of the organisation. This study is significant because it will provide academics and practitioners a template from which the different leadership styles needed for ensuring acquisition success can be critically examined. This study investigates six different acquisition conditions. It investigates the role of leadership in domestic and cross-border acquisitions; in acquisitions in the service and manufacturing industries; and depending on the level of integration between the two organisations. The expectation is that different leadership skills and attributes will be associated with enhancing post-acquisition organisational performance in these different contexts. Therefore, this study will provide a framework and an understanding of factors that contribute to performance and how leadership can be influenced by these factors in order to ensure the success of the acquisition.

This simultaneous systematic investigation of different acquisition contexts provides the unique and focal aspect of this study. This study overcomes the limitations presented in the literature review by employing a multidisciplinary approach in explaining the effect of leadership in the post-acquisition integration process. Therefore, this research is of high significance and relevance.

4.9 Concluding Remarks

This chapter presented the extant literature on the role of leadership in the post-acquisition context and argued about the effect that leadership has in such a process. It highlighted a synthesis between the acquisition and leadership literatures and explained the gap in these two literatures regarding the effect of leadership styles on post-acquisition organisational performance. Moreover, the chapter provided a critique of the existing literature on the effect of leadership in dynamic internal environments. It analysed the few studies that have investigated leadership under these environments and pointed out that also in the leadership literature there is a gap concerning the effect of leadership in unstable contexts such as acquisitions. Therefore, it argued the significance of this study in bridging the gaps from both literatures. In achieving this, there is a synthesis of both literatures as derived from both chapters 3 and 4. This chapter has also developed formal hypotheses regarding the effect of leadership in different acquisition contexts through an integration of the existing literature, in particular establishing linkages between leadership styles and the process school of thought. The hypotheses presented in chapter 3 (hypothesis 1 and 2) and the hypotheses presented in this chapter (hypotheses 3-7) present the synthesis of the two literatures, the structure of the deductive model and they cover the gap in the literatures as derived from the extensive literature review.

Chapter 5:

Post-acquisition Organisational Performance Measurement

5.1 Preamble

The review of the literature on performance measurement reveals that there are two ongoing debates among academics (Ittner *et al*, 2003; King *et al*, 2004; Schoenberg, 2006). The first debate concerns the use of non-financial performance indicators or even an integrated performance measurement system as opposed to traditional financial performance measures and the latter debate is about the appropriateness and reliability of subjective measures in cases where objective measures are difficult to obtain. These debates stem from the discussion that traditional financial performance systems fail to encapsulate the success of the strategy pursued, resulting in ambiguity (Chenhall and Langfield-Smith, 2007). While the importance of performance measurement is not in doubt, the crucial debate centres on aspects of how performance should be measured. Following these two debates, this chapter will analyse the different stances in the acquisition literature and will conclude as to which performance indicators are optimal in measuring post-acquisition success. At this point it is important to acknowledge that there are other ways of measuring performance in general such as the human capital approach and the corporate social responsibility approach. However, as these approaches are not directly relevant to M&As research being undertaken here, they will not be discussed.

This chapter is devoted to deriving a number of measures indicative of performance measurement for inclusion in the constructs. To choose the most appropriate performance indicators this chapter reviews a number of performance measurement models. More specifically, this chapter:

- examines the rationale of performance measurement (section 5.2),
- reviews the literature on post-acquisition performance measurement (section 5.3),
- highlights the need for inclusion of nonfinancial indicators (section 5.4),
- derives performance measures appropriate for this study (section 5.5).

5.2 Performance Measurement

Strategic performance measurement allows an organisation to align its business activities to its strategy and to monitor performance toward strategic goal over time (Kennerley and Neely, 2003). It provides a tool for organisations to manage progress towards achieving predetermined goals, defining key indicators of organisations performance and customer satisfaction (Bourne *et al*, 2002). Performance measurement is necessary to clarify the mission and vision of an organisation and assist in translating its strategies for achieving goals into measurable objectives, thus allowing the organisation to not only measure its progress, but also understand what improves results. Venkatraman and Ramanujam (1986:803) argued that performance is the time test of any strategy and that it 'centres on the use of simple outcome-based financial indicators that are assumed to reflect the fulfilment of the economic goals of the firm'. Others suggest that 'organisational performance is achieved by comparing the value that an organisation creates using its productive assets with the value that owners of these assets expect to obtain' (Barney, 2001:26).

Firm performance is central to strategic management, yet the conceptualisation and measurement of firm performance remains problematic. It could be argued that the assertion 'the treatment of performance in research settings is perhaps one of the thorniest issues confronting the academic researcher today' (Venkatraman and Ramanujam, 1986:801) is still applicable after 20 years of research on this area. This can also be explained by the fact that the selection of an indicator of performance with which to assess the effectiveness and the suitability of the strategy is no simple matter (Bourgeois, 1980; Chakravarthy, 1986). Performance refers to the achievement of an enterprise with respect to some criterion (Eccles, 1991; Lenz, 1980; 1981). There is a substantial disagreement, however, concerning the measurement of performance. Some suggest the use of multiple measures whilst others assert that various aspects of performance may be captured in a single measure (Lenz, 1980; Kirchhoff, 1977). However, it could be argued using a single measure may not capture the breadth of the overall performance leading to inconsistent and incomplete conclusions. Bourgeois (1980:235) stated that 'while some authors argue for the use of multiple indicators of organisational effectiveness, the adoption of any particular set of indicators embroils the researcher in the quagmire of problems of quantification and dimensionality, not to mention the issue of validly choosing the set of indicators which meets universal acceptance'. Venkatraman and Ramanujam (1986:804) argued that whatever means is used to operationalise a firm's financial performance 'this approach remains very much financial in its orientation and assumes the dominance and legitimacy of financial goals in a firm's system of goals'.

5.3 Performance Measurement in Acquisitions

It is obvious that the choice of performance measure has been a difficult issue facing researchers in the organisational field. There is a dichotomy between the performance metrics used by researchers to assess the outcome of strategic choices. Researchers from the finance disciplines employ objective performance metrics such as share-price movements and accounting data to forecast and evaluate the chosen organisational moves whereas, organisational behaviour and strategic management scholars have relied on subjective performance indicators such as managers' self reports (Schoenberg, 2006).

M&As are no exception. Researchers investigating the outcomes of the M&As activity have employed a variety of indicators. Some have employed subjective performance assessments obtained from managers involved in the acquisition using different methodologies (Birkinshaw *et* al, 2000; Brock, 2005; Datta, 1991; Hitt *et al,* 1998; Kavanagh and Ashkanasy, 2006; Larsson and Finkelstein, 1999; Larsson and Lubatkin, 2001; Pablo, 1994; Very *et al,* 1996; 1997; Veiga *et* al, 2000; Stahl and Voigt, 2005; Walter and Barney, 1990) or from external expert informants (Brush, 1996; Canella and Hambrick, 1993; Hayward, 2002). Others have utilised objective measures, including the acquirer's stock market returns (Agrawal and Jaffe, 2003; Carper, 1990; Chatterjee *et al*, 1992; Datta *et al*, 2001; Denis *et al*, 1997; Jensen, 1988; Lubatkin, 1983; Malatesta, 1983; Ravenscraft and Scherer, 1987; Sudarsanam and Mahate, 2003; 2006; Shimizu and Hitt, 2005) or profitability gains (Chatterjee and Meeks, 1996; Datta and Grant, 1990; Hayward and Hambrick, 1997; Healy *et al*, 1992; Hitt *et al*, 1998; Hopkins, 1987; Sharma and Ho, 2002; Zollo and Singh, 2004). Schoenberg (2006) argued that the variety of alternative performance measurement means that researchers in this field face a dilemma when selecting an appropriate performance variable. King *et al* (2004) argued that the inconsistencies in the literature concerning the antecedents of a successful acquisition are a result of the inconsistent use of the available performance measures. Similarly, Kiessling and Harvey (2006) pointed out that there is no agreement on the best way to measure acquisition success as different studies employ different indicators.

It is widely agreed that the success of an acquisition may be defined as the creation of synergy, that is, the value of the combined firm is greater than that of the two firms operating separately. After an acquisition transaction, the acquiring company must be effective in determining the anticipated synergistic benefits contributing to improving the overall performance of the firm. It is important to evaluate post-acquisition performance corresponding to the acquisition transaction for both short-term and long-term value of the firm, based upon predetermined and precise evaluation criteria. Financial measures are frequently used as a method of evaluating post-acquisition performance. Cochran and Wood (1984) stated that although there is no real consensus on the identity of the proper measure of financial performance, such measures fall into two broad dimensions: accounting profits and stock returns.

5.3.1 Accounting Profits

Accounting profitability measured by the profit/sales ratio, return on equity and return on net assets, is used as indicators of post-acquisition performance. Academics, however, argued that such measures are affected by biases and distortions. For example, Meeks and Meeks (1981) argued that accounting profitability inherently possesses biases and distortions, including changes in the bargaining power of combining partners, changes in tax implications, gearing rations or leverage ratios and changes in the goodwill arising from the acquisition. On the other hand, Neely (1999) stated that accounting measures as an indicator of performance offer a measurement of the effectiveness and efficiency of top management and reflect the reality of the impact that corporate strategy has on a firm's performance. However, there is no consistency in the accounting measures used and this can lead to inconsistencies in measuring post-acquisition acquisition performance.

Nonetheless, accounting measures are subject to one of the same limitations as are long-term stock price measurements; factors other than the M&As may be driving the numbers. In addition, accounting measures reflect the past, rather than present financial performance expectations (Montgomery and Wilson, 1986). Moreover, they do not reflect changes in the firm's risk profile. Accounting measures include the average return on assets ratio (ROA) and average return on equity ratio (ROE). These measures allow the comparison of differences in the productivity of assets and owner's equity (Hopkins, 1987). Though accounting measures have their shortcomings, ROA is one of the more robust accounting-based measures of economic performance (Brealy and Myers, 2003). ROE, on the other hand, provides an accounting based measure of performance that includes the effects of financial leverage.

Fisher and McGowan (1983) stated that accounting measures and accounting rates of return do not imply anything about relative economic profitability. Chatterjee and Meeks (1996), however, suggested two competing hypotheses that favour the further use of accounting-based research. These are: (i) the stock market is semi-strong efficient and (ii) the informational efficiency of the stock market has been overestimated. When the market is semi-strong efficient it implies that share prices adjust to publicly available new information very rapidly (Sudarsanam and Mahate, 2003). It further implies that neither fundamental analysis not technical analysis techniques will be able to reliably produce excess returns (Agrawal and Jaffe, 2003). This means that market-based measures will not be able to capture the effect of acquisition on subsequent acquisition performance. Moreover, the advantage of using accounting-based measures is that accounting studies of acquisitions usually study accounting rates of return during several years before and after the acquisition (De Langhe and Ooghe, 2001). This allows for a deeper understanding and evaluation of the acquisition outcome as well as the impact that the acquisition had on the organisational operational performance.

On the other hand, these three advantages have their own shortcomings as well. First of all, different studies examine different accounting measures of performance, making it difficult to compare the results. Second, there is a problem with the benchmark itself and with the selection of an appropriate methodology and third, there is a lack of appropriate data in order to complete the research and establish the success of the acquisition (Chatterjee and Meeks, 1996; Cosh and Hughes, 1996; Conn *et al*, 2005, Meeks and Meeks, 1981). Research in this area is still developing and findings are very difficult to compare as the methodologies still vary widely (Tuch and O'Sullivan, 2007).

Adjacent to the accounting-based measures is the operating performance acquisition literature. Drawing on the criticism of stock returns as an indicator, Healy *et al* (1992) employed cash flow performance of acquiring and target firm companies. They argued that their research is 'motivated by the inability of stock performance studies to determine whether takeovers create real economic gains and to identify the sources of such gains' (pg. 136). The authors integrated data about before tax operating cash flows for combined firms, for both the acquiring and the target company, in each of the five years before the acquisition. This allowed them to reach better conclusions regarding how organisational performance is influenced by an acquisition. Similarly, post-acquisition operating cash flows were the actual values gained by the united firm during the first five years of the symbiosis. Finkelstein and Hambrick (1989) argued that managers of highly profitable firms may use the firm's 'free cash flow' for outright acquisitions of other companies to increase their power, prestige and salary even if these acquisitions do not enhance firm value. Also, the authors employed industry-adjusted cash flow returns to measure whether the combined company's post-acquisition operating cash flow returns outperformed its industry in the post-acquisition period. Lastly, integrating accounting and stock return information in a consistent pattern produces high quality methods in takeover evaluation. This is achieved through investigating the correlation between the post-acquisition cash flow performance and the acquisition-related stock market performance (Datta *et al*, 1992).

Two notable limitations are inherent in the existing operating performance acquisition literature. First, the operating cash flow measure has not been operationalised (Sharma and Ho, 2002). Studies employing cash flow measures substitute operating cash flow by working capital from operations. However, working capital from operations does not equate to operating cash flow (Brealy and Myers, 2003; Sharma and Ho, 2002).

Therefore, the use of operating cash flow and working capital from operations may yield different acquisition-related inferences. Second, prior operating performance studies have improperly studied the acquisition effect. For instance, Neely and Rochester (1987, cited in Sharma and Ho, 2002) did not compare post-acquisition performance with pre-acquisition performance, hence, presenting unrealistic results and outcomes of the acquisition strategy.

Despite the fact that there are certain limitations in the use of accounting-based indicators to measure post-acquisition performance, they have been widely used in the literature. Healy *et al* (1997) argued that post-takeover accounting performance measures represent actual economic benefits generated by acquisitions. Table 5.1 summarises the main accounting-based indicators and the studies that employed them.

Table 5.1: Post-Acquisition Operating Studies

Study	Accounting Measure
Meeks (1977)	Return on Assets, Return on Equity
Hogarty (1978)	Investment Performance, Earnings Per Share
Kusewitt (1985)	Return on Assets
Neely and Rochester (1987)	Profitability Measures, Asset structure measures
Ravenscraft and Scherer (1987)	Operating Income over sales, Cash flow over sales
Hopkins (1987)	Average Return on Assets, Average Return on Equity
Herman and Lowenstein (1988)	Return on Equity, Return on Total Capital
Fowler and Schmidt (1989)	Return on common equity, total return to shareholders
Carper (1990)	Price/earnings ratio, Stock price, Dividend yield
Datta and Grant (1990)	Return on Investment, Earnings per share, cash flow
Harrison et al (1991)	Return on Asset
Healy *et al* (1992)	Operating cash flow returns on assets
Cornett and Tehranian (1992)	Operating cash flow returns on assets
Bruton *et al* (1994)	Net Income Measure, Return on Investment
Ramaswamy and Salatka (1996)	Operating cash flow returns on assets
Bergh (1997)	Return on Asset
Hayward and Hambrick (1997)	Return on Equity, Immediate returns, CAR
Sharma and Ho (2002)	Cash flow from operations, working capital from operation
Park (2003)	Return on Asset
Lu (2004)	Return of Asset, Return on Equity
Bild *et al* (2005)	Return on Equity
Shimizu and Hitt (2005)	Return on Asset
Zollo and Singh (2005)	Return on Asset

5.3.2 Stock Returns

The majority of previous studies that focused on acquisition performance utilised stock price changes and returns, after the acquisition announcement, based on the market efficiency theory that stock prices are linked with the synergistic benefits arising from the acquisition (Asquith, 1983; Bradley *et al*, 1988; Dalton *et al*, 2003; Jensen and Ruback, 1983; Malatesta, 1983). The use of such measures provides a market assessment of the changes in future performance of the firm under the incumbent management (Powell, 1997). Cannella and Hambrick (1993:144) asserted that the reason behind the utilisation of this indicator lies on the fact that 'there is little public information available on the performance of acquired firms after the acquisition has been consummated', therefore, prohibiting the use of accounting indicators. Lubatkin (1983) noted that researchers in finance tend to define M&As by a series of discrete, tactical events to assess the impact of these events on shareholder wealth.

To calculate the stock returns, the use of event study research implies that the appropriate measure of performance should reflect changes in shareholder wealth (Tuch and O'Sullivan, 2007). The event study methodology has several attractive features. First, the data is publicly available, permitting empirical studies on large data samples. Second, it relies upon the well-respected efficient market hypothesis, namely that share prices react in a timely manner to new information and that the extent of gains reflects the value of the firm in forthcoming periods (Tuch and O'Sullivan, 2007). Third, because abnormal returns are calculated, the data is not subject to industry sensitivity, enabling a broad cross-section of firms to be studied (Brealy and Myers, 2003). Abnormal returns provide an excellent basis for assessing the impact of organisational processes across different corporate settings (Chatterjee *et al*, 1992; Lubatkin and Shrieves, 1986). The event study firmly believes in rapidly adjusting, perfect capital markets and consequently in the immediate adjustment of stock prices to information about a planned acquisition (Agrawal and Jaffe, 2000; Desai *et al*, 2005). The investigation focuses on the abnormal movement of share prices following upon acquisition announcements.

However, utilising stock returns as a performance indicator has received criticism. Carow *et al* (2004) argued that stock price perspective studies have had little success in relating the market value of equity gains to improvements in corresponding corporate performance. This implies that the equity value gains could be due to capital market inefficiency stemming from the production of an overvalued security (Healy *et al*, 1992). In order to determine whether success or failure in acquisition bids are from real economic gains or market inefficiencies, share price research has analysed unsuccessful acquisitions (Asquith, 1983; Bradley *et al*, 1988; Jensen and Ruback, 1983).

Likewise, Healy *et al* (1992) argued that share price studies were unable to differentiate between pure economic gain and deviation from the market efficient theory, called the market inefficiency paradigm. That is, the expected real economic benefits are seemingly equal to the markets' mis-pricing conception. Hence, it is difficult to visualise a pure share price perspective that would explicitly explain the ambiguity of interpreting the indication. Secondly, Healy *et al* (1992) stated that stock price studies lack explanations of the sources or acquisition-related benefits based on the evidence. The authors argued that the sources of acquisition benefits can derive from factors such as operating synergies, tax savings or increased monopoly trends. Moreover, event studies are potentially biased by information asymmetry (Kroll *et al*, 1997). For instance, there is the possibility that information asymmetries may exist and synergies may be achieved from the combination of firms which are not perceived by the markets, but understood by the management of the acquired firms (Barney, 1988).

One major indicator of performance measurement in event studies is the capital asset pricing model (CAPM). The capital asset pricing model (CAPM) has been the primary measurement tool for determining the degree to which acquisitions create economic value. This model measures changes in the expected returns and estimate the effect of market variables that increase the financial risk accruing to the acquiring firm (Carper, 1990). Lubatkin (1983) suggested that the CAPM has two major limitations that researchers should consider when employing this model for acquisition-related research. First, to use CAPM as intended, a minimum of 6 years of 'clean data' must be available. This means that a firm under study cannot have been involved in a second acquisition activity for a period of three years on either side of the acquisition being investigated. Second, the CAPM oversimplifies the complex interaction that characterise financial markets and therefore, it may not give a true reflection of what actually takes place. Chatterjee and Meeks (1996) also argued that estimates from the CAPM can be biased leading to ambiguous results. Fowler and Schmidt (1989) argued that event studies, although statistically rigorous, serve a limited purpose for strategic management research. One of the reasons is that event study focused on a rather short period of time and long-term performance is seldom analysed, not allowing the researcher to comprehend the long-term results of the strategy employed. Another reason involves the solely employment of abnormal stock returns and not the utilisation of other organisational performance measures that could give a better picture of the strategy's effectiveness.

An important problem with stock market event studies is that they are not suitable for measuring the pre- and post-acquisition performance of unquoted companies, contrary to the accounting studies of acquisitions. This exists because CAPM is an *ex-ante* measure not *ex-post* measure (Montgomery and Wilson, 1986). Moreover, the pattern of long-run post-announcement negative abnormal returns to acquirers appears to be inconsistent with market efficiency and by implication with the methodological approach of using security returns to evaluate the future cash flow effects of corporate decision making (De Langhe and Ooghe, 2001; Loderer and Kenneth, 1992). Ravenscraft and Scherer (1987) have expressed concerns that the stock market performance of the bidder and the target firms around the acquisitions date does not indicate whether the strategy represented by the acquisition has succeeded or failed. This view suggests that on average the capital market may not form unbiased estimates regarding the prospects of acquisitions (De Langhe and Ooghe, 2001). An overview of studies that employed stock returns is presented in table 5.2.

Table 5.2: Post-acquisition Financial Studies

Study	Financial Measures
Firth (1980)	Shareholder returns
Jensen and Ruback (1983)	CAMP
Lubatkin (1983)	Returns, Stock Price Fluctuations
Malatesta (1983)	CAMP, Stock price
Hopkins (1987)	CAMP, Profitability Measures
Bradley *et al* (1988)	CAMP
Shelton (1988)	CAR, cumulative residuals
Amihud *et al* (1990)	Method of Payment, Stock Price
Blackburn *et al* (1990)	Capital Market Returns, Corporate Control
Seth (1990)	Daily returns, using time-series analysis, CAR
Agrawal *et al* (1992)	CAMP, Returns across time and securities
Healy *et al* (1992)	Cumulative Abnormal Returns
Loderer and Kenneth (1992)	Financial Performance of the firm, CAMP
Berkovitch and Narayanan, (1993)	Cumulative Abnormal Returns
Hayward and Hambrick (1997)	CAR, Acquisition Premiums, Media Praise
Loughran and Vijh (1997)	Abnormal Returns
Datta *et al* (2001)	Financial Performance, Stock Price
Cosh and Guest (2001)	Share price fluctuations
Capron and Pistre (2002)	Cumulative Abnormal Returns
Hayward (2002)	Cumulative abnormal returns
Wright *et al* (2002)	Cumulative Abnormal Returns
Kale *et al* (2003)	Wealth Gains
Sudarsanam and Mahate (2003)	CAMP, Market book value, method of payment
Carow *et al*, (2004)	Capital Market Returns
Sudarsanam and Mahate (2006)	Cumulative Abnormal Returns

5.3.3 Subjective indicators of performance

Subjective indicators of performance are usually used when objective measures are hard to obtain. Researchers employing this method usually send questionnaires to Chief Executive Officers or to the Top Management Team asking them about their perceptions of the organisational and financial performance of the firm. Usually, self-perception surveys measure accounting-based, market- based and non-financial indicators by asking respondents to evaluate these according to their own understanding and the current situation of their organisation. One major study justifying the use of subjective measures was done by Dess and Robinson (1984) who concluded that in the absence of objective measures, the use of subjective measures should be encouraged as it enables the researcher to gather important information concerning the firm's financial strength. In their research they found that subjective indicators of performance were positively correlated with objective measures.

However, relying solely on subjective measures could be argued to be unreliable as it may derive inconsistent results and non-realistic conclusions. Sharfman and Dean (1991) argued that managerial perceptions may be too limited, biased or over-generalised and thus, do not reflect the actual situation of the organisation. Subjective measures of firm performance are less homogenous conceptually due to the greater flexibility in framing questions to target different aspects of firm performance (Ittner *et al*, 2003). Dess and Robinson's (1984) study concluded that it would be a mistake to suggest that subjective measures are preferable to objective measures of organisational performance and that they are convenient substitutes for objective indicators. In light of this argument and to establish better results and accurate, reliable findings Dess and Robinson (1984) suggested that a combination of subjective and objective performance indicators should be employed. In their research, they found that the findings from the subjective measures were consistent with how the firm actually performed in terms of return on assets and growth in sales.

Subjective measures of performance have been widely used in the M&As literature. It is common for researchers administering surveys to enquire about performance implications. Usually, the measures used include financial performance indicators rather than non-financial (e.g. Birkinshaw *et al*, 2000; Bresman *et al*, 1999; Brock, 2005; Capron *et al*, 2001; Datta, 1991; Hitt *et al*, 1998; Kavanagh and Ashkanasy, 2006; King *et al*, 2004; Larsson and Finkelstein, 1999; Larsson and Lubatkin, 2001; Pablo, 1994; Saxton and Dollinger, 2004; Schoenberg, 2006; Stahl and Voigt, 2005; Veiga *et al*, 2000; Very *et al*, 1997; Walter and Barney, 1990). As seen above, the use of perceptions is frequently adopted in the strategic management literature on acquisition process and is justified on the basis that perceptions may be the best predictors of behaviour (Calori *et al*, 1994). There is evidence supporting the general reliability of self-reported performance measures particularly when reported by the firm's top managers (Nayyar, 1992; Very *et al*, 1997).

Academics employing subjective measures of performance often use regression analysis or structural equation modelling to assess the impact of certain independent variables on post-acquisition performance. Some independent variables found in the literature include the effect of relatedness or combination potential (Buchholtz *et al*, 2003; Larsson and Finkelstein, 1999; Ramaswamy, 1997), experience (Haleblian *et al*, 2006; Puranam *et al*, 2006), innovation (Puranam *et al*, 2006; Shimizu and Hitt, 2005), resource transfer (Larsson and Finkelstein, 1999; Saxton and Dollinger, 2004) and departure of the acquired top management team (Cannella and Hambrick, 1993; Lubatkin *et al*, 1999). The most common performance measures found in these studies include financial measures such as accounting profits and stock returns. Items in questionnaires include the manager's assessment of the return on assets, the return on investment, the return on sales and the return on capital employed. Others (see Birkinshaw *et al*, 2000; Bresnan *et al*, 1999; King *et al*, 2004; Schoenberg, 2006) have asked managers to rate the post-acquisition performance based on indicators such as earnings per share, shareholder returns and growth in market value. Although the use of subjective financial indicators of performance is positively correlated with objective measures of performance, they are subject to the same criticism and limitations. However, employing only financial indicators does not reflect the overall performance of the acquisition.

5.4 The need for nonfinancial measures in post-acquisition performance measurement

Post-acquisition performance has been predominantly studied from a financial perspective. The analysis in the previous section argued that most researchers employ either stock market indicators or accounting-based indicators to assess the success of an acquisition. These studies take only into account the financial performance of the firm based on the preposition that an acquisition is successful only when it maximises the returns of the company in terms of increased share value or increased profits (Vasilaki *et al*, 2007). It could be argued that the main motive behind the acquisition, as these studies have highlighted, is to improve the financial position of the acquiring company. Acquisitions, in these cases, are seen as a mean of realising corporate growth.

However, it could be argued that studying post-acquisition performance solely from the financial perspective may lead to ambiguous results and may not fully encapsulate the total value creation. The problem with financial measures is that they are often misleading indicators of the unit's strategic health (Lubatkin and Lane, 1996). Executives often turn to financial controls and have less ability to determine whether poor financial outcomes are a result of inappropriate strategy, poor implementation, or events beyond division managers' control. Therefore, the emphasis on financial controls creates risk aversion and a bias on the part of divisional managers towards short-term efficiency. This condition results in lower investment in R&D and other innovation activities for highly diversified firms (Hitt *et al*, 2001; Lubatkin and Lane, 1996).

Past studies (e.g. Bower, 2001; Hitt *et al*, 2001; Parvinen and Tikkanen, 2007; Wright *et al*, 2002) have demonstrated that companies select the acquisition strategy as an alternative to internal efforts aimed towards growth, diversification and/or profitability. Therefore, it could be argued that the measurement of post-acquisition organisational performance should also include nonfinancial indicators. Kiessling and Harvey (2006) argued that by focusing only on financial results such as income statement ratios and balance sheet issues, the role of people, knowledge gained or other intangible goals are often overlooked (Hunt, 1990). However, in the acquisition literature there are only few studies that employ nonfinancial indicators as well as financial measures to assess post-acquisition performance. These studies are presented in table 5.3.

Table 5.3: Nonfinancial Post-acquisition performance measures

Measure	Study
Goal Attainment	Birkinshaw *et al*, 2000; Brock, 2005; Datta and Grant, 1990, Jons *et al*, 2007; Kiessling and Harvey, 2006; Very *et al*, 1997; Weber, 1996
Increased Productivity	Capron *et al*, 2001; Schoenberg, 2006; Weber, 1996
Increased Market Share	Capron *et al*, 2001; Colombo *et al*, 2007; Datta, 1991; Datta, 2001; Schoenberg, 2006
Increased R&D- Innovation	Ajuha and Katila, 2001; Birkinshaw *et al*, 2000; Capron *et al*, 2001; Håkanson, 1995; Hitt *et al*, 1991; Hitt *et al*, 1998; Schoenberg, 2006; Weber, 1996
Increased Customer Base	Capon *et al*, 1990; Capron *et al*, 2001; Colombo *et al*, 2007; Schoenberg, 2006; Weber, 1996
Increased Product Range	Capron *et al*, 2001; Colombo *et al*, 2007; Håkanson, 1995; Hitt *et al*, 1991; Schoenberg, 2006
Efficiency	Datta, 1991; Håkanson, 1995; Hitt *et al*, 1998; Schoenberg, 2006; Weber, 1996
Job Satisfaction	Birkinshaw *et al*, 2000; Kiessling and Harvey, 2006; Napier, 1989; Shanley and Correa, 1992; Weber and Menipaz, 2003

The review of the literature reveals that companies fail to link performance measures to strategy (Chenhall and Langfield-Smith, 2007; Rowe and Morrow, 1999). Researchers advocate that performance measures should be supportive of the firm's goals and strategies (Franco-Santos and Bourne, 2005; Ittner and Larcker, 2003; Neely *et al*, 2002). However, the literature review of post-acquisition performance measurement has revealed that researchers rarely employ nonfinancial indicators as a mean to performance assessment and this has led to inconsistent findings (see King *et al*, 2004; Schoenberg, 2006). Ultimately, it could be argued that this ambiguity necessitates the employment of non-financial indicators. Schoenberg (2006) argued that multiple measures of performance would facilitate a more holistic view of acquisition outcome. The primary reasons suggested for the use of non-financial indicators of future financial performance are that these measures are better indicators of future financial performance than accounting measures and they are valuable in evaluating and motivating managerial performance (Banker *et al*, 2000; Bourne *et al*, 2000).

Performance measurement models such as the performance pyramid (Cross and Lynch, 1991), the balanced scorecard (Kaplan and Norton, 1992; 1996; 2001), the performance prism (Neely and Adams, 2001; Neely *et al*, 2002) as well as the CIMA scorecard include nonfinancial measures such as customer orientation, organisational effectiveness, organisational capability, learning and growth along with traditional financial measures. This argument is based on the cause and effect relationships as noted by Kaplan and Norton (1992) and Hauser *et al* (1994). These authors found that managerial actions result in outcomes such as innovation, quality or customer satisfaction which, in turn, drive future financial performance.

There are several reasons that have been suggested to explain why non-financial measures are used to augment financial indicators in measuring organisational performance. Non-financial measures are believed to complement short-term financial figures as indicators of progress toward a firm's long-term goals (Banker *et al*, 2000; Johnson and Kaplan, 1987). Current profit and other financial measures only partially reflect the effects of past and current activities, whereas non-financial measures of customer satisfaction, internal process improvement and an organisation's innovation and improvement activities reflect the effect of current managerial actions that will not show up in financial performance until later (Banker *et al*, 2000; Kaplan and Norton, 1992). According to Banker *et al* (2000) a principal justification for the use of non-financial performance measures is that they are leading indicators of financial performance. Ittner and Larcker (1998) proposed three principal reasons why firms should consider adopting non-financial measures. These are: perceived limitations in traditional accounting-based measures, competitive pressure and outgrowth of other initiatives.

These measures allow the organisation to assess the suitability and the success of the strategy deployed and to take corrective action. It is imperative that these measures should be aligned to the organisation's strategy so as to allow for feedback on the implementation of the strategy and to improve job performance (Ghalayini and Noble, 1996). Bourgeois (1980) argued that the goals and means of the strategy formulation process will have a direct impact on the content and performance of the implementation process highlighting the need to align measures and strategy. Similarly, Ginsberg and Venkatraman (1985:421) argued that 'it is perhaps a truism that any theory of corporate or business strategy must be, by definition, contingency-based'. This implies that two variables should exist in order to predict the third one. In the case of performance measurement the goals and the strategy of the organisation will be the two contingent variables that will predict organisational performance.

Non-financial indicators have been thoroughly employed in several studies and many academics have drawn conclusions that there are positive associations between financial and non-financial indicators of performance. Robinson and Pearce (1983) found that there are positive correlations between measures of profitability and growth of sales with measures of customer satisfaction and employee satisfaction. Capon *et al* (1990) also found that growth and market share are found to be positively associated with financial performance. Moreover, Ittner and Larcker (1998) found that higher customer satisfaction improves financial performance by increasing the loyalty of existing customers, reducing price elasticities, lowering marketing costs, reducing transaction costs and enhancing firm reputation.

Researchers have argued that a strategy is successful only when it meets the intended goals and objectives set out in the beginning (Bourgeois, 1980; Kiechhoff, 1977; Lenz, 1980; Snow and Hrebiniak, 1980). In the case of acquisitions, it could be argued that the source of success is contingent on value creation and synergy realisation. Researchers have argued that a company will create synergy and value only when the intended goals and benefits are achieved. Only then the company will be able to increase their financial performance. Therefore, the inclusion of acquisition motives as drivers of performance is essential when measuring post-acquisition success. Chapter 2 analysed that acquisitions occur to enable the firm to diversify, increase their competitiveness and profitability. Innovation, increased R&D, broaden market share and customer share, new product development are cited as common motives for acquisitions along with increases in the financial position of the firm. Acquisitions result in outcomes such as innovation, quality, satisfaction which in turn drive future performance (Pun and White, 2007; Simons, 2004). Therefore, it would be appropriate to develop measures that actually assess if the organisation has reached their initial goals both in financial and non-financial terms. This will allow the researcher to fully understand the acquisition process and assess the success of the acquisition.

5.5 Concluding Remarks

Performance refers to the achievement of an enterprise with respect to some criterion (Lenz, 1981) making it the ultimate test of any strategy adopted by an organisation. This chapter highlighted that there are three main approaches used to conceptualise and assess performance that are widely used among strategy researchers: accounting reports, market valuations and key informant descriptions (subjective indicators). The accounting reports usually employ profitability of growth measures, the market valuations risk adjusted returns, unadjusted market value and abnormal returns, whereas key informant descriptions use operational, survival, overall performance and relative performance.

This chapter critically analysed the different approaches, their limitations and the effect that they had in the development of the M&As literature. However, it was also pointed out that there is a substantial disagreement concerning the measurement of performance. While financial indicators have played a key role in performance measurement there are apparent limitations to these measures. The view that researchers employing financial measures are reluctant to draw on other disciplines contributes to hindering progress by fragmenting the literature (Chenhall and Langfield-Smith, 2007; Evans, 2004). Fowler and Schmidt (1989) suggested using performance measures based on multiple indices as they are more defensible and will overcome the limitations and criticism of single measures. Here, it is important to note that, adopting any type of performance measurement is subject to criticism and limitations as there is no consent among researchers and academics upon the optimal measures of performance.

Chapter 3 provided a criticism of the literature on the post-acquisition integration process research. In this critical assessment it was mentioned that the lack of a coherent framework of measuring post-acquisition organisational performance can be the source of fragmentation in the studies and the inconsistency of the results. One of the reasons for this inconsistency is the fact that researchers do not employ both financial and non-financial indicators of performance. This study tries to overcome this limitations by suggesting that the parallel assessment of performance in terms of financial indicators as well as nonfinancial will lead to a better assessment of the impact that acquisitions have on performance. Post-acquisition performance measurement, therefore, remains a controversial issue at best, and this chapter has tried to give an insight in this controversy by suggesting the use of non-financial indicators as reliable measures of firm performance. This chapter argued that post-acquisition performance measurement indicators should be aligned with the initial motives of the acquisition. This proposition is based on the logic that performance measurement refers to the achievement of a certain criterion (Banker *et al*, 2000; Lenz, 1981).

The literature review has shown that there is a need for a hybrid post-acquisition performance measurement model that will integrate both financial and non-financial indicators to assess the success of this corporate strategy. This is supported by Shanley and Correa (1992) who asserted that every acquisition is a unique phenomenon and the performance measures should reflect this. King *et al* (2004) argued that multiple measures of performance should be employed in post-acquisition performance research in order to better document the complete performance implications of the acquisition. Therefore, this study will employ financial and non-financial indicators of assessing the performance of post-acquisition integration. The specific performance indicators that will be employed in this study are presented in table 5.4 and are derived from the overall analysis of this chapter.

Table 5.4: Performance Indicators for this study

Financial Indicators	Non-financial indicators
Return on Asset (ROA)	Broadened Market Share
Return on Investment (ROI)	Broadened Customer base
Return on Capital Employed (ROCE)	Broadened Product range
Return on Sales	Improved Product R&D
Growth in Market Value	Innovativeness
Growth in Revenues	Efficiency
Earnings per Share	Productivity
Share Price	Reputation
Shareholder Returns	Employee Satisfaction
Cash Flow	Improved competitiveness

Chapter 6:

Methodology and Research Design

6.1 Preamble

The preceding chapters reviewed the literature on the concepts of acquisitions, leadership, post-acquisition integration process and performance measurement. As outlined in chapter 1, the purpose of this study is to develop and test a deductive model that assesses the association between leadership styles and post-acquisition organisational performance. This chapter presents the philosophical assumptions underpinning the research, as well as introduces the research strategy and the empirical techniques applied. It is essential to understand under which philosophical stance and umbrella the research falls into as according to Easterby-Smith *et al* (2002) failure to do so can affect the quality of management research and the quality of the research design. Therefore, the aim of this chapter is to consider the main philosophical positions that underlie the designs of management research, situate this study amongst existing research traditions and define the scope and limitations of the research design.

Specifically, this chapter shows that a variety of considerations should be taken into account into the process of conducting social research and in particular research within organisational contexts. This chapter, thus:

- discusses the broad research philosophies to enable an understandings of the context of this study (section 6.2),
- describes the methodology employed for this study (section 6.3),
- outlines the research design and methods of data gathering (section 6.4),
- describes the quantitative approaches used in the study (section 6.5).

6.2 Research Philosophies

The aim of organisational and management research is to speculate, discover and document as well as to provisionally order, explain, and predict observable social processes and structures that characterise behaviour in and of organisations (Maanen *et al*, 2007). Research is done in order to answer questions posed by theoretical considerations. But an alternative position is to view theory as something that occurs after the collection and analysis of some or all of the data associated with a study (Bryman, 2001). Therefore, the exploration of the nature of the relationship between theory and research is significant in every research study or project (Robson, 2004). This section will analyse the main research philosophies and the stances that a researcher should take into account in order to enable an understanding of the research design.

The first aspect that a researcher needs to take into account is the epistemological stances. There are two broad classifications of epistemological stances: positivism and phenomenology. The differences between these approaches are shown in table 6.1. Robson (2004) suggested that these two philosophies reflect essential differences in their assumptions about the essence of the phenomena under investigation; the grounds of knowledge; the relationships between human beings and the way in which the 'real' world is investigated and 'knowledge' is obtained. There are a number of other schools of thought on research philosophies such as realism, subjectivity, idealism and post modernism. These are not directly relevant to this research and therefore, will not be considered further. Accordingly, this section briefly examines the two main research philosophies in order to provide some contextual background information, prior to a discussion of the research methodology deployed in this study.

Table 6.1: A three dimensional framework for categorising scientific paradigms

Paradigm:	Positivism	Phenomenology
Deduction/Induction	Deduction	Induction
Dimension	Objective	Subjective
Commensurable/ incommensurable	Commensurable	Incommensurable
Core ontological assumptions	Reality as a concrete process	Reality as a social construction
Assumptions on human nature	Man as an adapter	Man as a social constructor
Basic epistemological stance	To study systems, process and change	To understand how social reality is created

Adapted from Perry (1998:786) and Morgan and Smirich (1980)

The first stance examined is positivism. The key idea of positivism is that the social work exists externally and that its properties should be measured through objective methods (Easterby-Smith *et al*, 2002). It refers to the use of scientific methods in the study of social phenomena (Johnson, 1983). Researchers who follow the positivist stance believe that reality is separate from the individual who observes it (Weber, 2004). A positivist approach involves: deducing the hypothesis from the theory, expressing the hypothesis in operational terms, testing the operational hypothesis, examining the outcome and, if necessary, modifying the theory in the light of the outcome (Saunders *et al*, 2006). Researchers that pursue a positivist stance when conducting a research study mainly employ such procedures as those associated with inferential statistics, hypothesis testing, mathematical analysis, experimental and quasi-experimental design (Saunders *et al*, 2006).

Phenomenology is a term given to a contrasting epistemology to positivism. This school of thought takes the position that people, and the physical and social artefacts that they create are fundamentally different from the physical reality examined in natural sciences (Lee, 1991). Phenomenology or interpretivism relates to the interpretation of social phenomena in terms of what is happening, by taking into account human actions and interactions (Robson, 2004). Interpretivism is predicated upon the view that a strategy is required that respects the differences between people and the objects of the natural sciences and therefore, requires the researcher to grasp the subjective meaning of social action (Bryman, 2001). In this case, the observing researcher should interpret the reality in terms of what it means to the observed people. This implies that the researcher must collect facts and data describing not only the purely objective, publicly observable aspects of human behaviour, but also the subjective meaning this behaviour has for the human subjects themselves (Lee, 1991).

In conjunction with the epistemological stance, the researcher should be clear of this ontological position before undergoing a research study. There are two ontological positions, objectivism and constructionism (Robson, 2004). Objectivism is an ontological position that asserts that social phenomena and their meanings have an existence that is independent of social actors. It implies that social phenomena and the categories that people use in everyday discourse have an existence that is independent or separate from actors. According to this stance, reality exists as an objective absolute, independent of man's feelings, wishes, hopes or fears. This stance lies on complete logical validation. On the other hand, constructionism, otherwise called subjectivism, challenges the suggestion that categories such as organisation and culture are pre-given and therefore, confront social actors as external realities. Constructionism is an ontological position that asserts that social phenomena and their meanings are continually being accomplished by social actors. It implies that social phenomena and categories are not only produced through social interaction but that they are in a constant state of revision (Bryman and Bell, 2006).

Researchers also need to choose the most appropriate research design. There are two main research designs, deductive theory testing and inductive theory building (Robson, 2004). Deductive theory represents the commonest view of the nature of the relationship between theory and social research. The researcher, on the basis of what is known of the particular research object and of theoretical considerations in relation to that object, deduces a hypothesis that must then be subjected to empirical scrutiny (Bryman and Bell, 2006). Embedded with the hypothesis will be concepts that will need to be translated into researchable entities (Saunders *et al*, 2006). An alternative to the deductive process is inductive theory building. With an inductive stance, theory is the outcome of research, the process of drawing generalisable inferences out of observations (Robson, 2004). This process implies that once the main data is gathered and theory is derived, further data may have to be collected to validate the theory that was generated.

Finally, the method of analysis should be considered. The research strategy refers to the process by which data is obtained and analysed. Establishing the research strategy is an important part of the research process as it determines the nature and source of data. There are two broadly known research strategies: the quantitative approach and the qualitative approach. The quantitative-qualitative distinction represents a useful means of classifying different methods of social research and is a helpful umbrella for a range of issues concerned with the practice of social research. In quantitative research, research questions are based on test theory-driven hypotheses. The primary method of data collection is to use a survey instrument that yields quantitative measures and the contribution is a precise model that explains the relationships between the different kinds of variables included in the study (Bryman, 2001). Quantitative research drawn from deductive theory testing presents well-developed constructs and models that have been studied over time with increasing precision by a variety of scholars, resulting in a body of work consisting of points of broad agreement that represent cumulative knowledge gained (Edmonton and McManus, 2007). Research questions tend to focus on elaborating, clarifying or challenging specific aspects of existing theories. Specific testable hypotheses are developed through logical arguments that build on prior work. Researchers draw from the literature to argue the need for a new study and to develop the logic underlying the hypotheses they will test. Research questions and designs thus utilise correlation-based analyses consistent with causal inferences supported by logic (Edmonton and McManus, 2007). These studies rely heavily on statistical analyses and inferences to support new theoretical propositions.

By contrast, qualitative research can be construed as a research strategy that usually emphasises words rather than quantification in the collection and analysis of data. It predominantly lies on an inductive approach to the relationship between theory and research, in which the emphasis is placed on the generation of theories. It could be argued that qualitative research is predominantly characterised as a research technique that does not involve numbers but conveys meanings and senses. Also, qualitative research is concerned with understanding the processes, which underlie various behavioural patterns (Kirk and Miller, 1986). Another definition could be that qualitative research is a body of research techniques that seeks insights through loosely structured mainly verbal data rather than measurements (Silverman, 1998). Analysis, in this case, may be interpretative, subjective, impressionistic and diagnostic and lies on the idiosyncratic perspective of the researcher. Qualitative research typically involves methods such as observations, interviewing, case studies and document review to collect data (Holloway and Wheeler, 1995). Table 6.2 projects the differences between the two main epistemologies in terms of their nature, orientation, ontological stance and method of analysis.

Table 6.2: Positivism versus phenomenology

Methodological Assumptions about:	Positivism	Phenomenology
Ontology	Person (researcher) and reality are separate	Person (researcher) and reality are inseparable (life-world)
Epistemology	Objective reality exists beyond the human mind	Knowledge of the world is intentionally constituted through a person's lived experience
Research Object	Research object has inherent qualities that exist independently of the researcher	Research object is interpreted in light of meaning structure of person's (researcher's) lived experience
Method	Quantitative research, Statistics, content analysis	Qualitative research, Hermeneutics, phenomenology
Theory of truth	Correspondence theory of truth: one to one mapping between research statements and reality	Truth is intentional fulfilment: interpretations of research object match lived experience of object
Validity	Certainty: data truly measures reality	Defensible knowledge claims
Reliability	Replicability: research results can be reproduced	Interpretive awareness: researchers recognise and address implications of their subjectivity

Source: adapted from Cepeda and Martin (2005:856)

6.3 Research approach for this study

Post-acquisition integration is a complex process, always considered as a dynamic process that constantly influences the organisational policies and practices. Academics view post-acquisition integration as an ongoing process that can determine the organisational success, the competitive position of the organisation in the market and overall corporate profitability. Academics who study acquisitions have reached the conclusion that in order to understand the reasons for success or failure in an acquisition one should study organisational behaviour (King *et al*, 2008; Stahl *et al*, 2005; Vaara *et al*, 2003). Moreover, past research has pointed that leadership, although one of the most neglected issues is crucial when implementing the post-acquisition integration (Waldman, 2004).

The survey of the literature revealed that there are some interpretive, qualitative studies investigating the effect of leadership on the post-acquisition performance (Graebner 2004; Sitkin and Pablo, 2004). Therefore, it is of great importance to test this association using quantitative measures so as to establish the degree of influence that leadership has on performance. This means that this study is deductive in nature and adopts a positivist stance. This allows the researcher to generate hypotheses that can be tested and will thereby allow explanations of this relationship to be assessed. In this case the researcher is distant and the research object has inherent qualities that exist independently of the researcher. Thus, the ontological stance chosen for this study is objectivism. The best research strategy, therefore, is quantitative methodology which enables the researcher to gather a wide variety of data and analyse them in a structured way to test the deductive model and the hypotheses as outlined in chapter 1.

The emphasis on quantitative methodology in the acquisitions literature is very evident (Schoenberg, 2006) as large sample surveys allow the researcher to establish the relationship between a number of independent variables and an outcome (typically firm performance) and to generalise the findings to the population from which the sample was drawn (Creswell, 1994). These general considerations led to the choice of a quantitative approach for the present study. Specifically, the overall objective of the study was to investigate the relationship between leadership styles and subsequent acquisition performance, with the ultimate aim of providing prescriptive advice to future acquirers. This necessitated the collection of data across a number of acquisitions in order to take in different acquisition strategies, and the subsequent use of statistical analysis to confirm the statistical significance of any relationships identified. Table 6.5 depicts the methodological considerations of this study.

Table 6.3: The methodological considerations of this study

Theoretical Reflection	Deductive
Epistemological Stance	Positivism
Ontological Consideration	Objectivism
Research Strategy	Quantitative

6.4 Research Design

The remainder of the chapter concentrates on the development and deployment of the research survey and outlines the research design adopted for this study.

6.4.1 Literature Review

The importance of a literature review as the first stage of research is outlined by Bryman and Bell (2007) as the cornerstone of every research. Tranfield *et al* (2003) argued that undertaking a review of the literature to provide the best evidence for informing policy and practice in any discipline is a key research objective for the respective academic. Bell (1987) characterised the literature review as a catalyst for new ideas and an important foundation for the research questions and the theoretical framework of the study. Howard and Sharpe (1983) regarded the literature review as being crucial in the refinement of the ideas for a project. A thorough literature review is necessary to identify the relevant published research. The objectives of the literature are to:

- examine definitions of the concepts being examined and where appropriate develop definitions to guide this study,
- establish the characteristics of the concepts,
- review the existing instruments and studies,
- justify the use of additional questions,
- provide the basis for developing the survey instrument.

The literature review was presented in chapter 2, 3, 4 and 5. The first aim of the literature review was to examine the significance of the research in the context of acquisitions and find where it leads, the advancement and the controversies (Bryman and Bell, 2007). The literature review of chapter 3 was based on a systematic literature review strategy as suggested by Tranfield *et al* (2003). The aim of this systematic literature review was to identify the main dynamics and influences in the study of post-acquisition integration process. The systematic review allows the researcher to synthesise research in a systematic and transparent manner so as to reach conclusions about the gaps in the literature, the proposed methodologies and procedures. Systematic literature review lies at the heart of a pragmatic approach to management research resulting in better judgement and serves both academic and practitioner communities (Tranfield and Starkey, 1998).

To conduct the review leading journals in the management field and acquisition research were chosen (see section 3.3 for further details on the journals). These journals were chosen as they are top rank peer reviewed journals that have published the latest advancements on the field of post-acquisition integration process and post-acquisition organisational performance. The criteria for the search are as follows:

- the article should have been published between 1997-2007 to capture the latest trends in the acquisition literature in order to identify the literature gap,
- the article should have been on post-acquisition integration process or on post-acquisition performance, covering the school of thoughts as assessed in chapter 3.

6.4.2 Questionnaire development

Saunders *et al* (2006) suggested that questionnaires can be self-administered or interviewer-administered. As this is a national study, it is vital that a wide geographical spread of respondents is obtained. Therefore, self-administered questionnaires were most appropriate to reach Chief Executive Officers in public limited companies given the limited time that these executives have. The foremost advantages of the self-administered questionnaire are the ability to cover a wider geographical area, they are convenient for both the researcher and the respondent (Rea and Parker, 2005) and they offer reduced interviewer induced bias.

However, Haspeslagh and Jemison (1991) criticised the use of questionnaire methodology as a tool to investigate organisational phenomena is acquisitions. Moreover, academics (see Angwin and Vaara, 2005; Stahl *et al*, 2005) have argued that questionnaires are too inflexible to capture the dynamic processes of acquisition integration and, furthermore, that issues leadership style and effectiveness are intrinsically behavioural in nature and therefore, cannot be validly quantified (Easterby-Smith *et al*, 2002).

In this particular study, it is important to highlight that the primary focus is on the *relationship* between leadership styles and subsequent performance rather than the *nature* of the leadership during the integration process. Thus, the use of a questionnaire facilitated the collection of the quantity of data necessary to statistically test the relationships under study. The above critique of the questionnaire methods was nevertheless acknowledged and was addressed by employing a questionnaire instrument to measure leadership styles that has been developed and tested previously with high reported reliability and validity (Antonakis *et al*, 2003; Avolio and Bass; 2004).

This study is amenable to research using questionnaires and many of its component areas have been previously researched in this way. The pilot study indicated that Chief Executive Officers are favourably disposed to a postal questionnaire rather than a face-to-face interview or a telephone administered questionnaire. The questionnaire design stage was given detailed consideration as shown in the next section. The literature, for example, De Vaus (2005) Rea and Parker (2005), suggested that the following issues need to be considered during the design stage of questionnaire surveys:

(a) Sample-related issues
(b) Questionnaire construction
(c) Content
(d) Administration
(e) Pre-testing the survey
(f) Field work

(a). Sample-related issues can be categorised as probability or non probability sampling (Emory *et al*, 2002). Probability sampling is defined as 'a controlled procedure that assures that each population elements is given a known nonzero change of selection' (Cooper and Emory, 1995:202). Probability or representative sampling is normally used for surveys, whereas, non probability sampling is mainly used for case studies (Saunders *et al*, 2006).

To identify potential respondents for participation in the study, certain criteria were established. These criteria enabled the researcher to have a well-drawn sample that will effectively mirror the population of interest. A poorly drawn sample, on the other hand, may contain systematic biases that distort findings (Short *et al*, 2002). To fully capture the creation of value in an acquisition and the synergistic benefits one should study acquisitions three to seven years after the completion of the transaction (Walter, 1989). Risberg (1999) argued that only then the researcher will be able to ascertain if the acquisition was a success and the impact that it had on aspects of the organisational performance. Therefore, only acquisitions that were completed between 2001 and 2004 were selected. This means that companies are almost integrated, enabling the respondents to give a more detailed and objective account on the dynamics of the post-acquisition integration process. The purpose of this time window was to allow sufficient time for the acquisition to demonstrate performance after it was completed, without exacerbating concems about the effect of retrospective bias on the part of respondents (Huber and Power, 1985). This time frame provides enough time for resource redeployment and capability improvements to take place, while being sufficiently recent for respondents to recall the conditions of the acquisition. It, also, presents a balance between accurate measurement of performance and accurate respondent perceptions of the acquisition on the other (Krishnan *et al*, 1997). This sample is of particular interest as it includes the latest M&As wave, which has not been thoroughly studied so far.

Furthermore, this study focuses solely on completed acquisitions, therefore, deal types such as joint ventures, mergers, minority stakes, share buy-back, management buy-out, management buy-in and initial public offerings were excluded. Only acquiring companies were selected as this study investigates the relationship between the leadership style of the acquiring company and post-acquisition organisational performance. Another determinant of selection was that the company had to be a public listed company so that it will be easier for the respondents to judge the performance of their organisations. Finally, the companies that were selected had to be U.K. based companies. Following an era of globalisation, deregulation, intensification of competitiveness, relaxation of anti-trust legislation and European Union integration, M&As have become the dominant mode of firm growth for European firms (Capron, 1999). It was mentioned in section 2.3.1 that British companies are among the most active acquisition players in Europe (MergerStat, 2006) and therefore, studying the strategies that they implement and the way they manage the integration process will provide an insight on how U.K. companies approach the post-acquisition integration phase.

The Bureau van Dijk database of acquisitions was used to search for the population. The search results indicated a total population of 1,056 companies that satisfied the selection criteria. As the population was very small any attempt to choose a sample would have led to inability to draw conclusions and inferences of the analysis of the data. Saunders *et al* (2006) suggested that the larger the sample, the lower the likely error of generalisation. Therefore, all companies were selected as potential respondents. The companies selected were from a variety of industries to increase external validity. They were categorised according to their 2-digit SIC Code to service and manufacturing companies to allow for a further comparison of these two industries. Companies from the service industries included organisations from the finance/ banking sector, the telecommunications sector, the utilities sector, support services sector as well as the marketing communications sector. Companies from the manufacturing industries included companies from the oil and mining sector, the pharmaceutical sector, the engineering and electronics sector, the building sector and the consumer goods sector. The sample shows a broad range of size and industry so as to have the ability to develop generalisable conclusions about the determinants of performance (Short *et al*, 2002).

Out of the 1,056 companies, only 764 were finally selected, following further screening. One crucial criterion was that the Chief Executive Officer of the company at the time of the acquisition was still employed in the same company. Other reasons for excluding the other 292 companies were that some companies have gone into receivership or liquidation since the acquisition or were acquired by other major players in the market. Some of these cases involved financial restructuring and therefore, these cases were also excluded as they did not involve any integration characteristics. This means that acquisitions of minority holdings were excluded (defined as less than 50.01%). Several companies were responsible for more than one acquisition within this period. In order to avoid several questionnaires being sent to the executives of multiple acquirers, the single largest acquisition in terms of bid value for each acquirer was selected for inclusion in the survey sample. This was done from the data in FAME database that has information about the value of the deals and it was cross-referenced from the company's reports.

(b). Questionnaire construction relates to the formulation of an outline of the information sought. In this study, the nature of variables is defined by the conceptual model outlined in chapter 1 and the review of the extant literature. As many of the concepts in this study are complex, it is important that the questions used are clear and easily understood. Bryman (2003) suggested that clear and unambiguous content can be achieved by framing questions in a neutral fashion, so as not to bias the response. Following the literature review, a number of drafts of the survey instrument were formed. Each draft was considered by a number of colleagues and expert academics in the field and amended accordingly so as to increase content validity. However, the literature clearly states that a pilot survey is vital in the development of a survey instrument (Gill and Johnson, 1991; Robson, 2004). The pilot survey was administered to twenty Chief Executive Officers covering both the service and manufacturing industries. The pilot survey confirmed the content of the questionnaire. The next stage was to decide on the form of response required. Likert-type scale measurements are commonly used and are easily analysable using statistical packages (Gill and Johnson, 1991). A seven-point scale is suggested based on the constructs of previous studies (e.g. Avolio and Bass, 2004; Capron *et al*, 1998). The use of Likert-type scales further provided interval level data suitable for statistical analysis in a readily accessible form. To ensure that the questionnaire is completed correctly by the respondents Bourque and Fielder (1995) suggested that the questionnaire needs to be constructed to allow a smooth transition from one section to another. In addition, they suggested that clear instructions must be given in relation to the completion of the questionnaire as a whole. These guidelines were adhered when designing the survey instrument.

(c). The content is enhanced by the number of established constructs which were chosen for this study. Each of these constructs is examined briefly below.

Table 6.4: The study's constructs

Constructs	Source
Motives for the acquisition	Walter and Barney (1990)
Integration Strategy	Haspeslagh and Jemison (1991)
Organisational Fit	Datta (1991)
Strategic Fit	Capron (1999)
Organisational Culture Fit	Weber (1996)
Leadership Styles	Avolio and Bass (2004)
Transfer of Resources	Birkinshaw *et al* (2000)
Performance *-Financial Performance* *-Non-Financial Performance*	 Schoenberg (2006) Non-financial indicators (*see* section 5.5)

Motives of the acquisition are discussed in chapter 2. Constructs examining the association between the motives and post-acquisition performance were developed by Walter and Barney (1990). Although other studies have been investigating the relationship between the motives of an acquisition and its relative performance, they have been studying them either from the financial perspective or the strategic perspective. Walter and Barney's study integrated these two perspectives and provided a holistic scale. Chapter 2 provides a critical assessment of the various motives for an acquisition and justifies the choice of Walter and Barney's scale. This scale is tested, validated and proven to be robust. It consists of fifteen items that comprise five motives of an acquisition.

Integration strategy was measured using the four strategies as studied by Haspeslagh and Jemison (1991). Integration strategy is examined in chapter 3 and the discussion concluded that this study will employ Haspeslagh and Jemison's (1991) categorisation of integration strategies. The strategies proposed by Haspeslagh and Jemison (1991) are absorption, preservation, symbiosis and holding strategy. This framework has extensively been used in the literature (Birkinshaw *et al*, 2000; Larsson and Lubatkin, 2001; Schoenberg, 2004).

Organisational Fit is discussed in chapter 3. The literature suggests that organisational fit is a crucial factor contributing to the success of the post-acquisition integration and to the post-acquisition organisational behaviour. Datta (1991) was the first to investigate the impact of organisational fit on post-acquisition performance and his scale has been used by other academics as well (Homburg and Bucerius, 2006; Krishnan *et al*, 1997; Larsson and Finkelstein, 1999; Schoenberg, 2004). Therefore, this study will examine the dynamics of organisational fit using the scale by Datta (1991) which has been validated and is robust. The scale consists of ten items that comprise three characteristics of organisational fit.

Strategic Fit is discussed in chapter 3. The association between strategic fit and post-acquisition success has been well documented in the literature. The first study that established this relationship was by Lubatkin (1983). His study, as the majority of studies investigating this relationship, categorises strategic fit according to the relatedness of the acquisition, if it is related or unrelated. Capron (1998) and Capron *et al* (2001) developed a scale measuring the strategic fit of the two organisations. This scale consists of five items, is robust and has been validated.

Organisational Culture Fit is considered in chapter 3. Organisational culture fit was measured following Weber's (1996) measures. Weber (1996) developed a scale to assess the influence of culture fit on post-acquisition integration and his scale has been used in the literature. Thus, it is the most appropriate scale to use for this study. Weber (1996) assesses organisational culture fit using five items and the literature review provides adequate justification for the use of these items in acquisition research.

Leadership is examined in chapter 4. The literature suggests that leadership is associated with post-acquisition integration and post-acquisition performance (Graebner, 2004). However, as there are no quantitative studies measuring this association, this study will employ Avolio and Bass's (2004) Multifactor Leadership Questionnaire, which has been used in other settings. It is a robust instrument known for its reliability and validity. Bono and Judge (2000) and Antonakis *et al* (2003) reported that the dimensions of the Multifactor Leadership Questionnaire display high reliability and offered evidence for convergent and discriminant validity. It comprises of forty-five items that assess the three distinct leadership styles.

Transfer of Resources is examined in chapter 3. The scale used to measure this construct was developed by Birkinshaw *et al* (2000) based on a previous scale developed by Håkanson (1995). The scale consists of four items and is consistent with the literature of the different types of resources, capabilities and knowledge that have to be shared between the acquiring and the target organisation in order to contribute to post-acquisition organisational performance.

Performance is discussed in chapter 5 and includes both financial and non-financial measures of performance. Financial performance of acquisitions scale was developed by Schoenberg (2006) and incorporates both stock returns and accounting performance providing a complete study of the financial performance after an acquisition. His study includes all the important indicators assessing performance in the context of acquisitions and since this scale has been validated it is considered appropriate for this study. There is evidence supporting the general reliability of self-reported performance measures particularly when reported by the firm's top managers (Nayyar, 1992). Non-financial performance scale is a mix of indicators derived from the discussion in section 5.4. These indicators have been examined in studies in the strategic management field but have not been applied to the context of post-acquisition organisational performance. Therefore, overcoming the limitations presented in section 3.4.3 and 5.4 this mixture of measures is the most appropriate.

(d). Administration relates to the establishment of the boundaries for the study. In this stage decisions on how the information should be gathered are made. May (1997) referred to this stage as turning the hypotheses into questions that respondents can understand and are able to answer. There are certain guidelines that should be followed in administering a postal questionnaire. First, the questionnaire should be designed to have a professional appearance, with clear instructions on how to complete it. It should be accompanied with a comprehensive cover letter explaining the goals of the research and the expected outcomes (Rea and Parker, 2005). The cover letter stated the objectives of the research and assured managers of the confidentiality of their responses (copy attached in Appendix A). A second questionnaire was mailed to managers who did not respond within 30 days. Cycyota and Harrison (2002) found that a follow-up letter and the personalisation of the questionnaire increase the likelihood of response. Second, the length of the questionnaire should be considered. Bourque and Fielder (1995) suggested that short rather than long questionnaires tend to be more effective. De Vaus (2005) suggested that the maximum length is about 12 pages in order to achieve a reasonable response rate. The final questionnaire (copy attached in Appendix B) for this study is six sides of A4 sized paper and therefore, well within the limits suggested by De Vaus (2005). To keep the length of the questionnaire to a possible minimum taking into account the complexity of the issues studied, only closed-ended questions are included as a means of ensuring a reasonable response rate. To increase the likelihood of a high response rate the cover letter provided more detailed information on:

- the length of time Chief Executive Officers are expected to spend completing the questionnaire,
- the usefulness of participating in the survey.

Finally, the cover letter offered all respondents a copy of the completed findings.

(e). Pre-testing the constructs is essential to ensure content validity (Robson, 2004). Therefore, to ensure that the questionnaire meets the aims of this study, the survey instrument was pilot tested. A pilot survey is intended to ascertain if any necessary changes should be made before the main study. Kidder (1981, cited in May, 1997:93) argued that the pre-test 'provides a means of catching and solving unforeseen problems in the administration of the questionnaire, such as the phrasing and sequence of questions or its length. It may also indicate the need for additional questions or the elimination of others'.

The literature advocates that the pilot study should be tested on people who resemble the types of people to whom the questionnaire will finally be given (De Vaus, 2005). The pilot testing has the following objectives:

- to establish the likelihood that the survey instrument will be completed by respondents in broadly similar circumstances to those of the pilot group,
- to establish that the questions are clear and understood,
- to ascertain that the instructions for completion are adequate,
- to ensure that the format of the questionnaire is user-friendly,
- to check practical issues such as data coding,
- to ensure that the final instrument contains relevant questions only.

Accordingly, the questionnaire was forwarded to 20 Chief Executives, both from manufacturing and service industries. Only four responded with feedback. The response rate is 20% and it could be deemed as very low. However, it is not surprising in acquisition research to get so low response rates (Pablo 1994; Very *et al*, 1997). The main issue that may prohibit executives answering the questionnaires is confidentiality issues (Harwood, 2006). Indeed, a non-response analysis indicated that executives could not participate in the study because they had signed a confidentiality agreement, they were involved in other acquisition negotiations and could not discuss the acquisition and that it was company policy not to participate in surveys. The response rate provided a good indication about what the response rate of the full-scale survey would be. In the light of the results of the pilot survey, a number of minor alterations were made to the survey instrument such as:

- the removal of some redundant or ambiguous questions,
- the addition of new categories of response to some questions,
- the revision of the structure of some of the questions.

It is recognised that the wording of some of the items may still remain open to criticism, due to the use of relatively complex language. However, it was felt on balance that the advantages outlined above of adopting an established instrument outweighed the potential shortcomings that remained.

(f). Field work refers to the data collection using the full-scale survey as amended from the pilot testing. The need to have an effective and efficient administration and deployment of the questionnaire is well documented (Dillman, 1978). It mentioned previously that this is a national study and therefore, a postal survey is most appropriate way of collecting the data. The unit of analysis in this study is at the corporate level. The individuals who completed the questionnaires were the Chief Executive Officers of acquiring companies, who were personally involved in the process leading up to the acquisition decision, as well as the post-acquisition integration process. It is a common pattern in acquisition research when investigating issues such as post-acquisition organisational performance to target only the Chief Executive Officer. Hambrick (1981) suggested that the Chief Executive's perceptions of the firm's strategy are more likely to align with strategic measures and strategies and have the best vantage point for viewing the entire organisational system. Bowman and Ambrosini (1997) argued that it is possible to draw inferences using single respondents in strategy research.

However, there is no way that the researcher can state with a high degree of certainty that the Chief Executive Officer completed the questionnaire form personally and did not delegate the task (Bryman and Bell, 2006). There is, also, no way of knowing the order in which the questionnaire was completed by the respondents or the time taken in the completion of the questionnaire or sections of the questionnaire (Moser and Kalton, 1971). Nonetheless, postal surveys are extensively used in management research and are considered a valid and acceptable approach (Birkinshaw *et al*, 2000; Capron *et al*, 2001; Schoenberg, 2006; Stahl and Voigt, 2008).

As mentioned previously, all Chief Executive Officers were sent a signed covering letter containing details of the survey, its rational and objectives and an indication of the likely time that the questionnaire would require to complete. The questionnaire was forwarded to all participants in early September 2007. In accordance with accepted practice, a postcard reminder was sent to all firms in the sample after one month (De Vaus, 2005). In addition, each firm was contacted by telephone in order to encourage a response.

A review of the literature revealed that response rates in acquisitions tend to be very low, sometimes below 10% (Schoenberg, 2004). This is due to the sensitive nature of acquisitions and subsequently the sensitive nature of the questions asked in the survey and the confidentiality agreements that Chief Executive Officers have signed. From the initial mailing of 764 questionnaires, 139 completed, usable questionnaires were received. De Vaus (2005) provided a formula of calculating the response rate:

$$\text{Response rate} = \frac{\text{Number of questionnaire returned}}{\text{N in sample - (ineligible + unreachable)}} \times 100$$

The response rate for this study according to the above formula is 18.7% which is satisfactory given the sensitive nature of the questionnaire, the level of management queried and the low response rate in M&As survey research (Very *et al*, 1997). This response rate is consistent with those in other survey-based studies of post-acquisition strategy and performance.

It is, also, important to study the reasons for not completing the questionnaire. There are potentially many reasons for non response. For example questions might be 'unclear, too intrusive, provide sufficient responses or appear to be similar to previously answered questions' (De Vaus, 2005:137). Bryman and Bell (2006) stated that reasons for non response include a suspicion about researchers' motives, a reluctance to divulge information and concerns for the resource implications in questionnaire completion. In this case, it could be argued that acquisitions can be a response to competitive dynamics in the market and therefore, Chief Executive Officers were reluctant to disclose valuable information in case these were leaked to their competitors. It was mentioned earlier that to ensure response all Chief Executive Officers were offered a summary of the results. In this study, this was found to have an adverse impact in the response rate as executives feared that confidentiality and anonymity, although promised, would not be kept. To overcome this limitation, the researcher contacted each company over the phone to reassure anonymity and confidentiality.

It is important to measure the degree of non response to eliminate any source of bias within the sample. Despite every effort to maximise the response rate and encourage the executives to participate, 525 firms did not submit a completed survey questionnaire. Various reasons were given for non participation as follows:

- there were strict confidentiality agreements and could not disclose information,
- it was company policy not to participate in surveys,
- lack of time and resources needed to complete the survey,
- the author was unable to contact the executive of his/her deputy after three separate attempts,
- some firms refused to participate with no particular reason given.

The degree of non response was measured using the formula by Ryan (1995):

$$\text{Response rate} = \frac{\text{the number of respondents}}{\text{original sample}} \times 100$$

Using this formula the non response rate is 81.3%. Taken together with the number of valid responses this suggests that response bias is not a serious problem and does not invalidate the results.

Overall, this study followed Huber's and Power (1985) guidelines for increasing the accuracy of retrospective data. Table 6.5 shows these guidelines in column 1 as well as their implementation in this study, in column 2.

Table: 6.5: Increasing accuracy of retrospective data

Guidelines (from Huber and Power, 1985)	Implementation (in this study)
Identify the person most knowledgeable about the issue	Questionnaires only sent to the chief executive director also serving at the time the acquisition was made
Recognise that informants emotional involvement may reduce accuracy	Key variables displayed convergent validity with other objective data
Motivate informants to cooperate	Covering letter assured confidentiality and highlighted the relevance of the research
Minimise elapsed time between events and data collection	Data collected in line with practitioners timescale for realisation of acquisition objectives
Consider framing of questions	Questionnaire pre-tested on selected executives with feedback
Use pre-tested, structured questions	Established questionnaire items adopted from the literature, where possible

6.5 Quantitative data analysis

This section outlines how the questionnaire responses were analysed. After the completion of the data gathering phase, the questionnaires were coded and analysed using the SPSS version 15 statistical package. The following statistical techniques were used in the data analysis stage:

- Descriptive statistics
- The reliability of scales
- Testing for scale validity
- Correlation analysis to detect potential underlying relationships
- Factor analysis
- Multiple Regression

6.5.1 Univariate Statistics

Descriptive research deals with questions of what things are like, not why they are that way (De Vaus, 2005). Descriptive statistics provide summaries about the sample and the measures. They are argued to lay the foundation for all statistical knowledge. The most frequently used descriptive technique is the mean score for the data in the sample. Independent-sample t-test was the technique used for assessing univariate statistics. The independent t-test is used in situations in which there are two experimental conditions and different participants have been used in each condition (Field, 2005). The independent t-test allows for the examination of variance between the differences of two groups. Accordingly, to enable comparisons and to explore in greater detail the survey findings, descriptive statistics are outlined in chapter 7.

6.5.2 Scale Reliability

Reliability refers to the extent to which a variable or a set of variables is consistent in what it is intended to measure (Hair *et al*, 2007). Litwin (1995:6) defined reliability as 'a statistical measure of how reproducible the survey instrument's data are'. The instrument could be said to have a high degree of reliability when there is a significant association between responses to each of the attributes. One diagnostic measure is the reliability coefficient that assesses the consistency of the entire scale, with Cronbach's alpha being the most widely used measure. The generally accepted lower limit for Cronbach's alpha is .70, although it may decrease to .60 in exploratory research (Hair *et al*, 2007). Jones and James (1979) contended that a broader band of alpha value ranging from 0.44 to 0.81 is adequate as the alpha value tends to give a conservative estimate of the scales reliability. Cronbach's alpha can be obtained from a variance/covariance matrix or by evaluating the average correlations among items in a scale (Bartholomew *et al*, 2002). Cronbach (1951) suggested that if several factors exist then the formula should be applied separately to items relating to different factors. If the questionnaire has subscales, α should be applied separately to these subscales. SPSS 15 is used to calculate Cronbach's alpha using the guidelines that at least three items are included in each scale in order to cover it adequately. The reliability values of all the measures meet Nunally's (1978) criterion of accessibility .70 or above, and factor analysis confirmed the unidimensionality of all scales.

6.5.3 Scale Validity

Validity refers to the degree to which the instrument meets the purpose for which it was designed. As reliability does not necessarily imply validity (Gill and Johnson, 1991) it is imperative to test for scale validity. Although all of the characteristics used in each section of the questionnaire are well supported in the literature, it is still necessary to carry out validity testing to enable confidence in establishing the associations between the constructs. Validity can be expressed in terms of content validity and construct validity.

Content validity is a qualitative judgement based on a review of the literature and it ensures that the instrument adequately covers the information that it is designed to measure. To ensure content validity, each measure is derived from the literature and analysed for its relevance, clarity and meaning during the pilot phase of the study.

Construct validity refers to the degree to which the instrument measures the underlying construct that it is designed to measure and indicates whether the combination of items in a scale truly represent the characteristics of the construct of interest. Construct validity can be convergent -the extent to which the survey correlates with factors or variables with which it should correlate- and discriminant - the extent to which it does not correlate with factors with which it should not correlate (Emory *et al*, 2002). Examples of sources of evidence for construct validity, which were used in this study, include:

- experts' judgement that the content of the survey directly relates to the area of interest,
- an analysis of the internal consistency of the survey,
- feedback from survey respondents about their responses to the survey in order to obtain information about the 'goodness' of the items as shown in the pilot survey,
- statistical analyses such as factor analysis which will be outlined later in this chapter.

6.5.4 Correlation Analysis

Correlation analysis is used to measure the linear association between metric variables (Hair *et al*, 2007). The number representing the correlation is referred to as correlation coefficient. It ranges from -1.00 to +1.00, with zero representing absolutely no association between the variables. The larger the coefficient, the stronger the linkage or level of association. Correlation coefficients can be either positive or negative, depending upon the direction of the relationship between the variables. A correlation co-efficient is significant when it is sufficiently different from zero to exclude the possibility that the correlation between two measures is achieved by chance. When correlation is used, several assumptions about the nature of the data should be made (Hair *et al*, 2007). First, the two variables are assumed to have been measured using interval or ratio-scaled measures. Second, the relationship examined between the variables is linear and third, the variables under examination are from a normally distributed population. All these three assumptions were met when analysing the data using statistical techniques.

6.5.5 Factor Analysis

Factor analysis is used to reveal underlying common themes and also as a means of data reduction. Factor analysis is a technique that has three main uses: to understand the structure of a set of variables, to construct a questionnaire to measure an underlying variable and to reduce a data set to a more manageable size while retaining as much of the original information as possible (Field, 2005). In this study both confirmatory and exploratory factor analysis was carried out to determine how the items can be grouped into variables for the study. Confirmatory factor analysis (CFA) allows the items to act as indicators of each factor (Hair *et al*, 2007). It also provides a statistical test of the goodness of fit for the proposed confirmatory solution and thus, allows the validation of scales for the measurement of specific constructs (Hair *et al*, 2007). CFA is based on the use of a multivariate technique to confirm a pre-specified relationship. In interpreting the results from CFA, the researcher should pay attention to the χ^2 value and its significance. If the value is not significant then, the model can be accepted. Moreover, the researcher should look also at indicators such as the Tucker-Lewis Index (TLI) and the Root Mean Square Error of Approximation (RMSEA) in order to understand if the model is accepted or not. General rules imply that a value higher than .9 for the TLI and a value less than 0.8 for the RMSEA are acceptable and indicate also the goodness of fit of the model (Byrne, 2001). Therefore, these values should be checked before accepting the model or not.

After the CFA, exploratory factor analysis was also carried out. The most frequently used factor analysis type for these purposes is principal component analysis. In this study, principal component analysis is used to transform the sets of variables into a composition of linear combinations of variables. Moreover, VARIMAX orthogonal extraction method was used to generate the factors. In varimax rotation the factors are extracted so that their axes are maintained at 90 degrees. This means that each factor is independent of, or orthogonal to, all other factors (Hair *et al*, 2007).This extraction method has been widely used in the literature from where the constructs of this study were extracted. Therefore, to comply with the rules of factor analysis (Ford *et al*, 1991, see below) only this method was used to ensure the consistency of the results.

The literature suggests that interpretability and eigenvalues can be used to determine the number of factors. A scale has validity if all the characteristics load onto one factor. It follows that if more than one factor emerges then the scale measures more than one construct. In a case where the scale loads onto more than one factor, a decision must be made whether to subdivide the factor into two or more factors or to eliminate the attributes as 'unwanted nuisance factors' (Sakakibara *et al*, 1993). Kaiser (1960) recommended retaining all factors with eigenvalues greater than 1. The criterion is based on the idea that the eigenvalues represent the amount of variation explained by a factor and that an eigenvalue of 1 represents a substantial amount of variation. Kaiser's criterion is accurate when the number of variables is less than 30 and the resulting communalities, after extraction, are all greater than .6 (Field, 2005; Tabachnick and Fidell, 2007). Therefore, all factor loadings above .6 are retained for analysis. Moreover, presentation issues were also strictly followed according to the guidelines of Ford *et al* (1991) to ensure the consistency of the factor analysis and to enable future researchers of this particular area to understand the quality of the applied factor analysis literature and the validity of the information obtained from applied factor analysis research.

6.5.6 Multiple regression analysis

Regression analysis is a technique used for modelling and analysis of the data consisting of values of a dependent variable and one or more independent variables. The multiple regression equation takes the form

$$y = b_1x_1 + b_2x_2 + \ldots + b_nx_n + c + e$$

The b's are the regression coefficients, representing the amount of dependent variable y changes when the corresponding independent changes 1 unit. The c is the constant, where the regression line intercepts the y axis, representing the amount of dependent y will be when all independent variables are 0. The standardised version of b coefficients is the beta weights, and the ratio of the beta coefficients is the ratio of the relative predictive power of the independent variables. E is the error term reflected in the residuals.

This study uses multiple regression analysis as it assesses more than one predictor. Hair *et al* (2007) stated that multiple regression is the appropriate method of analysis when the research problem involves a single metric dependent variable presumed to be related to two or more metric independent variables. Regression analysis is used to test hypotheses about the existence of causal effects, to estimate the strength of those effects and to compare the strength of effects across groups (Stolzenberg, 2004).

The main objective of the regression analysis is to predict the changes in the dependent variable in response to changes in the independent variable. This objective is most often achieved through the statistical rule of least squares (Hair *et al*, 2007). This study aims to establish the association between leadership and post-acquisition organisational performance taking into account other dynamics that exist in the process. Thus, multiple regression analysis is the most appropriate statistical technique to investigate the effect that leadership has on the post-acquisition organisational performance. Using multiple regression is consistent with methodologies established in strategic management literature (Schoenberg, 2004). It should also be noted that multiple regression analysis is only appropriate when the relationship between the dependent and independent variables is linear.

It is necessary to make several assumptions about the relationship between the dependent variable and the independent variable. The main assumptions are linearity between the dependent and independent variable, normality, homoscedasticity and independence of the error term as well as absence of outliers and no multicollinearity between the independent variables. These assumptions were observed while preparing and analysing the data using the residual plots (Tabachnick and Fidell, 2007). Following the guidelines from Field (2005), Hair *et al* (2007) and Tabachnick and Fidell (2007) the outliers of the cases were replaced by the median in each of the items. This action allows the researcher to keep the initial sample without having to reduce it further. In the present study the sample, although consistent with previous literature on acquisitions (Very *et al*, 1997), is already small (18.7%) and therefore, any further attempts to reduce it by removing the outliers would prohibit concrete conclusions and generalisability of the results. Hence, the study followed the guidelines of the above mentioned authors on the treatment of outliers and replaced them by the median. The implications of this action are discussed in the discussion of the results in section 9.3.

In the presentation of the regression analyses both standardised and unstandardised coefficients are shown. Unstandardised coefficients are shown to represent the independent contributions of each independent variable to the prediction of the dependent variable and standardised coefficients are shown so that to enable the researcher to compare the relative contribution of each independent variable in the prediction of the dependent variable.

Moreover, to test hypothesis four moderated multiple regression was employed. The aim of moderated multiple regression (MMR) is to study the interactive effects between two independent variables (Aguinis, 1995). The existence of a moderating effect implies that the relationship between two variables varies as a function of the value of a third variables, labelled a moderator. MMR consists of comparing two least-squares regression equations (Bauer and Curran, 2005). The MMR regression yields the following equation:

$$y = a + b_1X + b_2Z + b_3XZ + e$$

a= the least-squares estimate of the intercept
b_1= the least-squares estimate of the population regression coefficient for X
b_2= the least-squares estimate of the population regression coefficient for Z
b_3= the sample-based least squares estimate of the population regression coefficient for the product term (X*Z)

The moderated approach to interaction analysis requires a theorist to specify a moderator and this is referred to as focal independent variable (Jaccard and Turrisi, 2003). The focal independent variable is the variable whose effect on the dependent variable is thought to vary as a function of the moderator variable (Baron and Kenny, 1986). In order to perform the moderated multiple regression the variables were centred according to the guidelines of Aiken and West (1996). This means that the variables were put in deviation score form so that their means are zero. Centring the variables yields desirable statistical properties and allows for better inferences to be drawn (Ellis, 2008; Prescott, 1986).

To test hypotheses five, six and seven hierarchical multiple regression was used. Hierarchical regression analysis is a useful statistical technique for establishing either the empirical or the theoretical importance of sets of predictor variables (Tisak, 1994). This hierarchical regression analysis or the incremental partitioning of variance, which potentially may be conducted in studies with correlated predictors, has the advantage that once an ordering of variables is established, the partitioning of the total variance is unique (Raudenbush and Bryk, 2002). In hierarchical analysis there are certain principles that need to be followed. Some of the basic principles underlying the hierarchical ordering for entry are causal priority and the removal of confounding and spurious relationships, research relevance and structural properties of the research factors being studied (Cohen *et al*, 2002). To meet these requirements all the variables were entered into the equation according to theoretical reasoning and their level of significance in predicting the outcome variable. Hierarchical analysis enabled the researcher, in this case, to fully understand the predictors of post-acquisition organisational performance and explore under which settings leadership emerges to assess acquisition performance.

Finally, to investigate the predictors of post-acquisition organisational performance in different settings and to reach concrete conclusions on the factors that enhance post-acquisition organisational performance backward deletion regression was employed. Backward elimination of the variables is a method of selecting variables for inclusion in the regression model that starts by including all independent variables in the model and then eliminating those variables not making a significant contribution to the prediction (Hair *et al*, 2007).

6.6 Concluding Remarks

The methodology is largely prescribed by previous studies that examine broadly similar constructs, and is therefore relatively straightforward. The first stage of the research was to conduct an extensive literature review to ascertain the issues of major importance facing companies that engage in acquisitions. This stage supports the development of the conceptual deductive model. The next stage involves the most effective way of data collection. A postal survey is seen as the most appropriate mechanism. In the development of the questionnaire, established constructs were used, tested for their scale validity and reliability. However, following the piloting of the survey instrument a number of amendments are made to the draft questionnaire.

The response to the final questionnaire was subjected to a number of statistical analytical techniques. The first step is to use factor analysis and find the reliability of the scales. Once that is achieved, descriptive statistics will be employed to investigate the characteristics of the sample. The range of associations between the variables is ascertained using multiple regression analysis and moderated regression analysis. The final testing of the model is subjected to hierarchical regression analysis and backward elimination to ascertain the predictors of post-acquisition organisational performance as well as to ascertain the role of leadership in the acquisition context.

Chapter 7:

Data Reduction and Description

7.1 Preamble

The previous chapters outlined the processes utilised in the development of the survey instrument and the methodology used for the analysis of the data. This chapter reports on the results of initial statistical analysis. This statistical analysis is imperative for the items of the questionnaire to be transformed into measurable variables to enable the further testing using multivariate statistics and more specifically multiple regression. The questionnaire is comprised of 127 questionnaire items. It is very difficult, due to space in the thesis, to present all the tests done to confirm normality of all the 127 items. Instead, according to Field (2005) and Ford (1991) it is better to reduce the factors first and then present the normality of the generated factors. This allows for the production of a data set that will be more manageable while still retaining as much of the initial information as possible. However, it is important to point out that the initial screening of all 127 items took place. This means that the items were checked for their normality and the outliers have been investigated. The structure of this chapter is as follows:

- it discusses the process of data reduction and the reliability analysis (section 7.2),
- it provides the normality tests on the variables as generated and summated through the factor analysis as well as the sample characteristics (section 7.3),
- it presents the results from the independent t-tests that were conducted in order to find out if there are any difference between the sub-groups of the sample (section 7.4).

7.2 Data Reduction and Data Reliability

Data reduction is a very useful statistical technique in the case of large questionnaires such as this one, as it is usual to attempt a reduction of the data using factor analysis to facilitate a more effective analysis and interpretation of the results. Reliability analysis, confirmatory factor analysis and principal component analysis method were used for reducing the data and loading them into factors to enable a thorough analysis. The guidelines of the factor analysis mentioned in section 6.6.5 were strictly followed. For the exploratory factor analysis, all factors above .6 are retained for further analysis (Nunnally, 1978). It should be repeated at this point, as also in section 6.6.5, that the exploratory factor analysis was carried out using varimax orthogonal factor rotation. In this case, the correlation between the factors is determined to be 0. This technique has been widely used in the literature from where the constructs for this study were adopted, hence, it is imperative to use the same extraction method in this study as well to ascertain the constructs and draw conclusions in the theory.

7.2.1 Motives for the Acquisition

Section 1, Part A of the questionnaire asked the Chief Executive Officers to assess the motives for the acquisition. This part of the questionnaire consisted of fifteen items. Cronbach's alpha for this scale is **.752** which shows the strength of the scale (Jones and James, 1979). The high internal reliability score denotes that this summated scale is appropriate for further statistical analysis. Emphasis on the specific motive of the acquisition is based on a seven point Likert-type scale ranging from *Important* (=1) to *Not Important* (=7). Tables 7.1 and 7.2 report the results of the factor analysis on the attributes representing the different motives of the acquisition.

Table 7.1: Total variance explained - *Motives*

Component	Eigenvalues		
	Total	% of Variance	Cumulative %
1	**3.357**	**22.380**	**22.380**
2	**2.096**	**13.974**	**36.354**
3	**1.651**	**11.004**	**47.357**
4	**1.269**	**8.461**	**55.818**
5	**1.159**	**7.725**	**63.543**
6	.937	6.244	69.787
7	.877	5.847	75.635
8	.744	4.958	80.593
9	.667	4.443	85.036
10	.594	3.957	88.993
11	.508	3.385	92.379
12	.363	2.417	94.795
13	.332	2.214	97.009
14	.254	1.694	98.703
15	.195	1.297	100.000

Table 7.1 demonstrates that five factors can be extracted from the analysis of the scale with eigenvalues more than 1, which indicates that there is good evidence for the strength of the structure underlying the individual variables. The five factors jointly explain 63.5% of the total variance with factor one accounting for 22.4% of the variance. The results are consistent with Walter and Barney (1990) who found that these motives can be loaded onto five factors. However, when varimax extraction was employed it could not generate five factors as rotation failed to converge in 25 iterations. Further factor analysis, always with varimax rotation, tried firstly to load the items onto four factors, since it was not possible to load them onto five factors as shown by their eigenvalues. However, this could not also generate four factors and then further analysis was carried out to load the items onto three factors. Both times, varimax rotation with Kaiser Normalisation was used to extract the factors. The results, presented in table 7.2, demonstrate that the attributes can be loaded on three factors.

Table 7.2: Factor analysis - *Motives*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .568 Bartlett Test of Sphericity = 579.423, Significance = .000 VARIMAX with Kaiser Normalisation converged in 5 iterations			
Attributes	**Factor 1**	**Factor 2**	**Factor 3**
Utilise interlocking and mutually stimulating synergistic qualities of the acquired company vis-à-vis the acquiring company		.622	
Attain improved competitiveness inherent in holding a sizeable market share or important market position		.767	
Stop a competitor from acquiring the same company		.641	
Gain complementary financial features such as those that balance cyclicality	.602		
Utilise the acquiring company's expertise in marketing production, or other areas within the acquired company	.692		
Improve efficiencies and reduce risk in the supply of specific goods and/or services to the acquiring company		.752	
Penetrate new markets by utilising the acquired company's marketing capacities	.648		
Improve economies of scale by utilising the acquired company's distributional capabilities to absorb or expand output	.637		
Gain valuable or potentially valuable assets with the cash flow or other financial strengths of the acquiring firm	.670		
Broaden the customer base for existing goods and services of the acquiring company	.680		
Create economies of scale by relevant capacity expansion			.614
Reduce costs and risks of entering a new industry			.790
Fulfil the personal ambitions, vision, or some particular goal of the acquiring company's chief executive	.685		
Pursue opportunities to sell stock at a profit by such acts as pressing management of the acquired firm for improved earnings			.656
Utilise the acquired company's personnel, skills or technology in other operations of the acquiring company			.633

Table 7.2 shows that the Bartlett test and the Kaiser-Meyer-Olkin model produce satisfactory results, which indicate that the data is suitable for factor analysis (Kaiser, 1974). The factor analysis generates three distinct factors – *Expand product lines and enter new business, Deal with interdependencies in a firm's environment and Achieve economies of scale and scope*. Accordingly, three new variables, presented in figure 7.1, based on the factors derived are added to the working data set.

Figure 7.1: The results of the factor analysis of the motives scale

Improve efficiencies and reduce risk Utilise interlocking and mutually stimulating synergistic qualities Attain improved competitiveness Stop a competitor from acquiring the same company	Deal with interdependencies in a firm's competitive environment
Gain complementary financial features Utilise the acquiring company's expertise Penetrate new markets Improve economics of scale Gain valuable or potentially valuable assets Broaden the customer base Fulfil the personal ambitions, vision of the acquiring company's chief executive	Expand product lines and enter new business
Create economics of scale Reduce costs and risks of entering a new industry Pursue opportunities to sell stock at a profit Utilise the acquired company's personnel, skills or technology	Achieve economics of scale and scope

7.2.2 Relatedness

Section 1, *Events leading to the acquisition*, Part F asked the Chief Executive Officers to indicate the relatedness and level of fit between the two companies, the acquiring and the target, before the acquisition. This part of the questionnaire consists of 20 items which includes measures on organisational fit, strategic fit and cultural fit. As these measures refer to three distinct areas they will be analysed separately.

7.2.2.1 Organisational Fit

The alpha score of the organisational fit scale is .**784** and indicates a high degree of internal reliability. The high internal reliability score means that this summated scale is appropriate for further statistical analysis. Emphasis on the organisational fit is based on a seven point Likert-type scale ranging from *Absolutely* (=1) to *Not at all* (=7). Tables 7.3 and 7.4 report the results of the factor analysis on the attributes representing the organisational fit between the two companies.

Table 7.3: Total variance explained - *Organisational Fit*

Component	Eigenvalues		
	Total	% of Variance	Cumulative %
1	**3.712**	**37.115**	**37.115**
2	**1.641**	**16.409**	**53.525**
3	**1.070**	**10.699**	**64.223**
4	.808	8.078	72.301
5	.763	7.634	79.935
6	.623	6.230	86.165
7	.539	5.394	91.559
8	.329	3.295	94.853
9	.296	2.960	97.813
10	.219	2.187	100.000

Table 7.3 shows that three factors can be extracted from the analysis of the scale with eigenvalues more than 1, which indicates that there is good evidence for the strength of the structure underlying the individual variables. The three factors jointly explain 64.2% of the total variance, with factor one accounting for 37.1% of the variance.

Table 7.4: Factor analysis - *Organisational Fit*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .722 Bartlett Test of Sphericity = 474.783, Significance = .000 VARIMAX with Kaiser Normalisation converged in 7 iterations			
Attributes	**Factor 1**	**Factor 2**	**Factor 3**
Similar managerial skills	.782		
Similar approaches to management problems	.826		
Extent to which the communication channels are structured	.731		
Usage of a sophisticated control and information system for tight formal control	.648		
Similar decision-making processes	.762		
Similar management styles and practices	.720		
Similar evaluation criteria		.678	
Time period over which the reward and evaluation process is focused		.742	
Similar administration of rewards		.819	
Similar business-level strategy			.697

The analysis of organisational fit indicates that the attributes load on three factors as shown in table 7.4. Most of the attributes have a factor loading in excess of 0.7. Based on the interpretation of the guidelines on factor analysis this implies that the factor structure is robust. This factor analysis generated two distinct factors – *Similar Managerial Approaches, Similar Evaluation and Reward Criteria.* Similar business-level strategy cannot be considered as a factor as it only comprises of one variable. Further, factor analysis followed to try and load this item in the other two factors. However, this analysis did not generate favourable results and hence, this item had to be dropped from the scale of organisational fit. Accordingly, two new variables, presented in figure 7.2, based on the factors derived are added to the working data set.

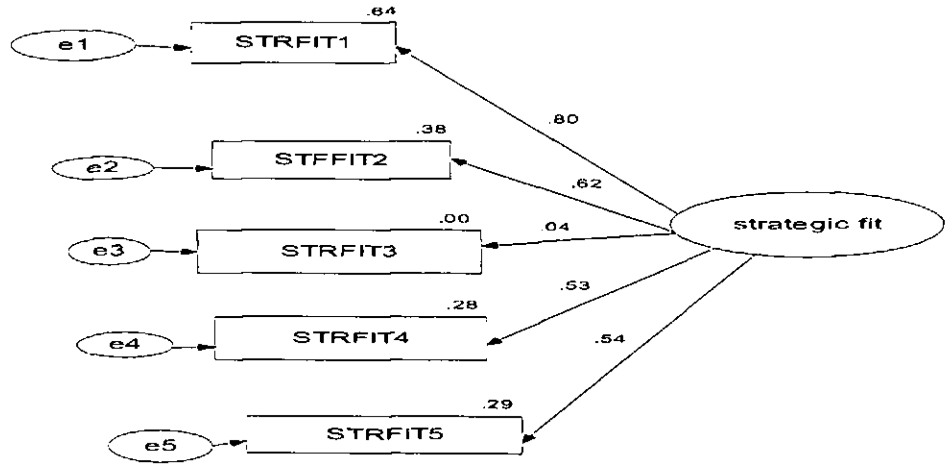
Figure 7.2: The results of the factor analysis of the organisational fit scale

Similar managerial skills Similar approaches to management problems Extent to which the communication channels are structured Usage of a sophisticated control and information system for tight formal control Similar decision-making processes Similar management styles and practices	Similar Managerial Approaches
Similar evaluation criteria Time period over which the reward and evaluation process is focused Similar administration of rewards	Similar Evaluation and Reward Criteria

7.2.2.2 Strategic Fit

The alpha score of the strategic fit scale is **.713** and indicates a high degree of internal reliability. The high internal reliability score means that this summated scale is appropriate for further statistical analysis. Emphasis on the strategic fit is based on a seven point Likert-type scale ranging from *Absolutely* (=1) to *Not at all* (=7). To fully understand the dimensions of strategic fit both confirmatory and exploratory factor analyses were used to identify and confirm the factors of the scale. Regarding confirmatory analysis all items of the scale were drawn in the model. The results depicted that the model was not accepted when all items were included as χ^2= 9.55 (p=.08, df=5) and RMSEA=.08. Although the value of RMSEA depicts that the model can be accepted the high p value of the χ^2 indicates that the model should be split into two factors. Figure 7.3 depicts the results from the first factor analysis.

Figure 7.3: CFA for strategic fit



In this figure it can be seen that strategic fit is explained by items 1, 2, 4 and 5, whereas item 3 is not supporting the construct. Therefore, a second CFA followed dropping item 3. This time, items 1, 2, 4 and 5 loaded onto one factor. χ^2 for this model was 4.53 (p=.104, df=2) which indicates that the null hypothesis is rejected and therefore, there is goodness of fit in the model and these four items explain the strategic fit scale. In this case, RMSEA is .07, CFI=.98 and TLI=.93 which demonstrate the goodness of fit of this factor analysis. To further explore the factor structure of the strategic fit scale, exploratory factor analysis followed. Tables 7.5 and 7.6 report the results of the factor analysis on the attributes representing the strategic fit between the two companies.

Table 7.5: Total variance explained - *Strategic Fit*

	Eigenvalues		
Component	**Total**	**% of Variance**	**Cumulative %**
1	**2.167**	**43.340**	**43.340**
2	**1.060**	**21.207**	**64.546**
3	.704	14.073	78.619
4	.640	12.799	91.418
5	.429	8.582	100.000

Table 7.5 shows that two factors can be extracted from the analysis of the scale with eigenvalues more than 1, which indicates that there is good evidence for the strength of the structure underlying the individual variables. The two factors jointly explain 64.5% of the total variance, with factor one accounting for 43.3% of the variance.

Table 7.6: Factor analysis - *Strategic Fit*

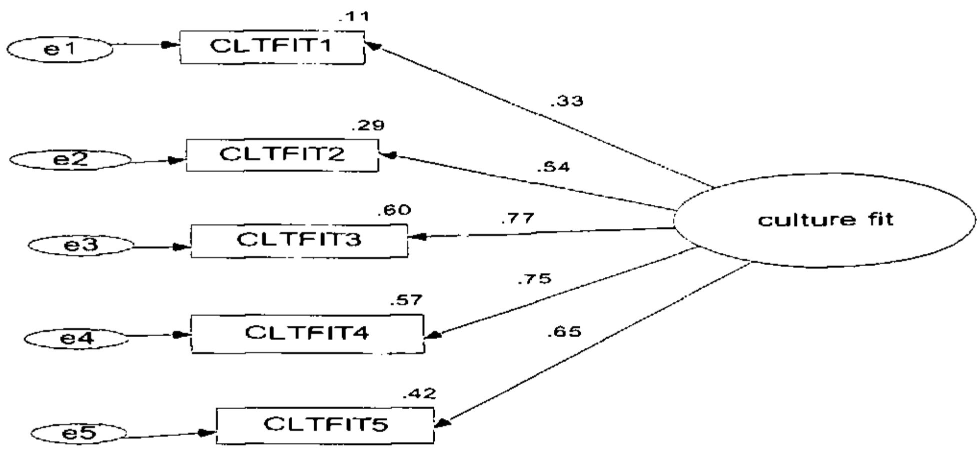
Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .692		
Bartlett Test of Sphericity = 110.028, Significance = .000		
VARIMAX with Kaiser Normalisation converged in 3 iterations		
Attributes	**Factor 1**	**Factor 2**
Your products were similar	.829	
Your technology was similar	.754	
Your geographical markets were similar		.939
The types of customers you attract were similar	.688	
You were direct competitors	.647	

The analysis of strategic fit indicates that the attributes load on two factors as shown in table 7.6. Most of the attributes have a factor loading in excess of 0.7. Based on the interpretation of the guidelines on factor analysis this implies that the factor structure is robust. The exploratory factor analysis confirms the results from the confirmatory factor analysis that two factors can be generated to represent the strategic fit scale. However, as *similar geographic markets* (item 3) was dropped during CFA to improve the goodness of fit of the model, it should also be dropped from EFA. Therefore, strategic fit scale comprises of only one item as grouped by both CFA and EFA results, *similar strategic orientation*.

7.2.2.3 Culture Fit

The alpha score of the culture fit scale is **.771** and indicates a high degree of internal reliability. The high internal reliability score means that this summated scale is appropriate for further statistical analysis. Emphasis on the culture fit is based on a seven point Likert-type scale ranging from *Absolutely* (=1) to *Not at all* (=7). To fully understand the dimensions of culture fit both confirmatory and exploratory factor analyses were used to identify and confirm the factors of the scale. Regarding confirmatory analysis all items of the scale were drawn in the model. The results depicted that the model was not accepted when all items were included as χ^2= 23.57 (p=.000, df=5) and RMSEA=.17. Both values depict that the model, in the present condition, cannot be accepted. Figure 7.4 depicts the results from the first factor analysis.

Figure 7.4: CFA for culture fit



In this figure it can be seen that culture fit is explained by two factors. Item 1 and 2 represent one factor whereas, items 3, 4 and 5 represent a second factor. Therefore, a second CFA followed loading the items onto two factors. This time, items 1 and 2 and items 3, 4 and 5 loaded onto two factors as expected. χ^2 for this model was 3.46 (p=.485, df=4) which indicates that the null hypothesis is rejected and therefore, there is goodness of fit in the model and culture fit scale can be represented by two factors. In this case, RMSEA is .000, CFI=1 and TLI=1 which demonstrate the goodness of fit of this factor analysis. To further explore the factor structure of the culture fit scale, exploratory factor analysis followed. Tables 7.7 and 7.8 report the results of the factor analysis on the attributes representing the culture fit between the two companies.

Table 7.7: Total variance explained - *Culture Fit*

	Eigenvalues		
Component	**Total**	**% of Variance**	**Cumulative %**
1	**2.539**	**50.778**	**50.778**
2	**1.025**	**20.493**	**71.271**
3	.559	11.183	82.454
4	.504	10.076	92.530
5	.374	7.470	100.000

Table 7.7 shows that two factors can be extracted from the analysis of the scale with eigenvalues more than 1, which indicates that there is good evidence for the strength of the structure underlying the individual variables. The two factors jointly explain 71.3% of the total variance, with factor one accounting for 50.8% of the variance.

Table 7.8: Factor analysis - *Culture Fit*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .737 Bartlett Test of Sphericity = 175.562, Significance = .000 VARIMAX with Kaiser Normalisation converged in 3 iterations		
Attributes	**Factor 1**	**Factor 2**
Similar innovation and action orientation attitudes		.909
Similar risk-taking attitudes		.736
Similar degree of autonomy and responsibility delegated for important decisions	.869	
Similar perceptions to employee management	.826	
Similar performance orientation	.735	

The analysis of culture fit indicates that the attributes load on two factors as shown in table 7.8. All the attributes have a factor loading in excess of 0.7. Based on the interpretation of the guidelines on factor analysis this implies that the factor structure is robust. The exploratory factor analysis also confirmed that the two first items load on one factor and the other three on a second factor. This generated two distinct factors – *Similar Innovation and Risk-taking Strategies and Similar Autonomy and Decision-making Approaches.* Accordingly, two new variables, presented in figure 7.5, based on the factors derived are added to the working data set.

Figure 7.5: The results of the factor analysis of the culture fit scale

Similar innovation and action orientation attitudes Similar risk-taking attitudes	Similar innovation and risk-taking strategies
Similar degree of autonomy and responsibility delegated for important decisions Similar perceptions to employee management Similar performance orientation	Similar autonomy and decision-making approaches

7.2.3 Leadership Style

This section outlines the analysis of the responses of the Chief Executive Officers' perception of their firms' leadership styles. It refers to section two, *Events during the integration process*, Part A of the questionnaire. This section is divided into 45 statements describing the attributes of the leadership styles derived from Avolio and Bass (2004). In their validated and tested instrument, Avolio and Bass (2004) use twenty attributes to characterise transformational leadership, eight attributes to characterise transactional leadership and eight attributes to characterise passive leadership. Emphasis on the specific leadership attributes is based on a seven point Likert-type scale ranging from *A very great extent* (=1) to *A very small extent* (=7). As the same instrument as that tested and validated by Avolio and Bass (2004) is used, factor analysis is carried out on the attributes of each leadership style rather than all 45 attributes to ascertain if the number of attributes can be further reduced in this sample.

7.2.3.1 Transformational Leadership

The alpha score of the transformational leadership scale is **.906** and indicates a high degree of internal reliability. Transformational leadership consists of four factors, *Individual Consideration, Intellectual Stimulation, Idealised Behaviour and Inspirational Motivation* as outlined in chapter 4. All these factors are allocated four attributes apart from Idealised Behaviour that consists of eight items. The reliability of all the subscales was computed according to Cronbach's (1951) guidelines that suggested that if several factors exist then the formula should be applied separately to items relating to different factors. If the questionnaire has subscales, α should be applied separately to these subscales. Therefore, the alpha score of Individual Consideration is .764 which allows further analysis of the data. Intellectual Stimulation generated an alpha value of .721. The alpha value of Idealised Behaviour when all the items were included was .682 which is acceptable however, when item 25 was dropped the alpha value increased to .784 which enables a thorough analysis. Finally, the alpha value for Inspirational Motivation is .768. This means that the Cronbach's alpha value was improved from .893 to .906 which allows a better analysis and evaluation of the results. The high internal reliability score denotes that this summated scale is appropriate for further statistical analysis. The second step is to conduct a factor analysis to find out if four factors can be extracted following the guidelines of

Avolio and Bass (2004). Tables 7.9 and 7.10 report the results of the factor analysis on the transformational leadership dimension.

Table 7.9: Total variance explained -*Transformational Leadership*

	Eigenvalues		
Component	**Total**	**% of Variance**	**Cumulative %**
1	**7.122**	**37.486**	**37.486**
2	**1.898**	**9.990**	**47.477**
3	**1.595**	**8.394**	**55.870**
4	**1.325**	**6.972**	**62.842**
5	.978	5.286	68.128
6	.914	4.812	72.940
7	.794	4.177	77.118
8	.651	3.424	80.542
9	.606	3.188	83.729
10	.519	2.734	86.463
11	.466	2.450	88.914
12	.431	2.267	91.181
13	.347	1.825	93.005
14	.305	1.604	94.609
15	.275	1.447	96.056
16	.249	1.311	97.367
17	.190	1.001	98.367
18	.177	.933	99.301
19	.133	.699	100.000

Table 7.9 demonstrates that four factors can be extracted from the analysis of the scale with eigenvalues more than 1, which indicates that there is good evidence for the strength of the structure underlying the individual variables. These results are also consistent with Avolio's and Bass (2004) results who found four factors that characterise transformational leadership. The four factors jointly account for the 62.8% of the variance, with factor one accounting for 37.5% of the variance.

Table 7.10: Factor analysis -*Transformational Leadership*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .811 Bartlett Test of Sphericity = 1373.055, Significance = .000 VARIMAX with Kaiser Normalisation converged in 8 iterations				
Attributes	**Factor 1**	**Factor 2**	**Factor 3**	**Factor 4**
Re-examines critical assumptions to question whether they are appropriate				.640
Talks about the most important values and beliefs		.665		
Sees different perspectives when solving problems				.791
Talks optimistically about the future	.605			
Instils pride in others		.719		
Talks enthusiastically about what needs to be accomplished	.845			
Specifies the importance of having a strong sense of purpose		.681		
Spends time teaching and coaching			.636	
Goes beyond self-interest for the good of the group		.751		
Treats others as individuals rather than just as a member of a group			.724	
Acts in ways that build respect		.694		
Considers the moral and ethical consequences of decisions		.634		
Articulates a compelling vision of the future	.628			
Considers an individual as having different needs, abilities and aspirations from others			.804	
Gets others to look at problems from many different angles				.681
Helps other to develop their strengths			.672	
Suggests new ways of looking at how to complete assignments				.703
Emphasises the importance of having a collective sense of mission		.678		
Expresses confidence that goals will be achieved	.781			

Table 7.10 shows that the Bartlett test and Kaiser-Meyer-Olkin model produce significant results, which indicate that the data is highly suitable for factor analysis. The factor analysis generates four distinct factors – *Individual Consideration, Intellectual Stimulation, Idealised Behaviour and Inspirational Motivation.* Each factor contains attributes that typify the leadership dimension as described in chapter 4. All the attributes have a factor loading in excess of 0.6, which implies that the factor structure is robust. Figure 7.6 presents these factors.

Figure 7.6: The results of the factor analysis of the transformational leadership scale

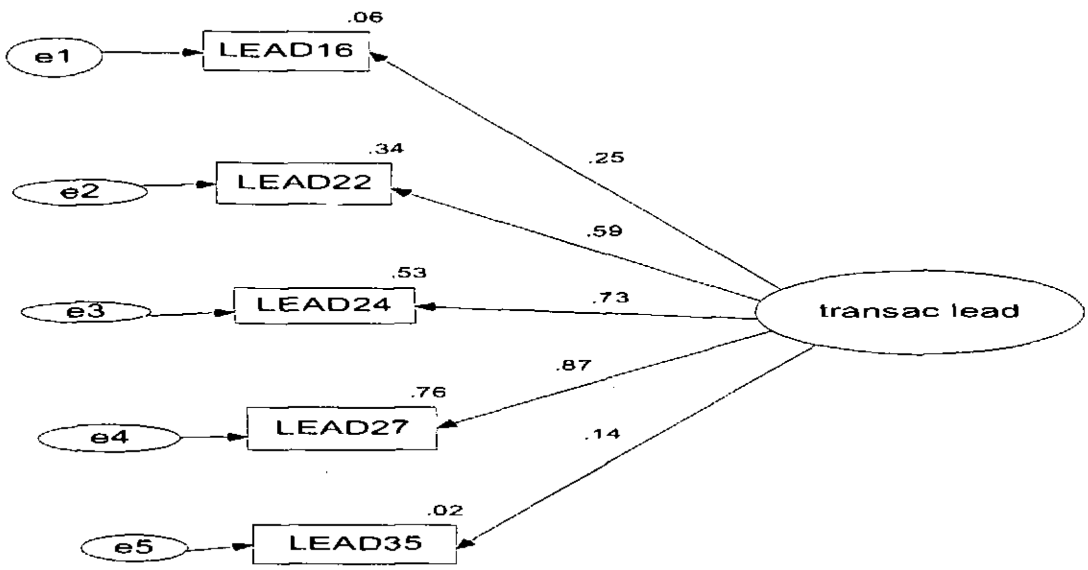
Re-examines critical assumptions to question whether they are appropriate Sees different perspectives when solving problems Gets others to look at problems from many different angles Suggests new ways of looking at how to complete assignments	Intellectual Stimulation
Talks about the most important values and beliefs Instils pride in others Specifies the importance of having a strong sense of purpose Goes beyond self-interest for the good of the group Acts in ways that build respect Considers the moral and ethical consequences of decisions Emphasises the importance of having a collective sense of mission	Idealised Behaviour
Talks optimistically about the future Talks enthusiastically about what needs to be accomplished Articulates a compelling vision of the future Expresses confidence that goals will be achieved	Inspirational Motivation
Spends time teaching and coaching Treats others as individuals rather than just as a member of a group Considers an individual as having different needs, abilities and aspirations from others Helps other to develop their strengths	Individual Consideration

7.2.3.2 Transactional Leadership style

The alpha score for this scale is **.710** and indicates a high degree of internal reliability. Transactional leadership consists of two factors, Management by Exception (Active) and Contingent Reward as outlined in chapter 4. Both Management by Exception (Active) and Contingent Reward are allocated by four attributes. The alpha score on Management by Exception (Active) when all four attributes were included was .580 which is very low. Therefore, item 4 from the questionnaire was dropped leading to a final alpha value of .760 that allows further analysis of the data. The alpha score for Contingent Reward was .592 and hence, item 1 in the questionnaire was dropped from the scale generating a final alpha value of .657. This means that the Cronbach's alpha value was improved from .618 to .710 which allows a better analysis and evaluation of the results. To fully understand the dimensions of strategic fit both confirmatory and exploratory factor analyses were used to identify and confirm the factors of the scale. Regarding confirmatory analysis all items of the scale were drawn in the model. The results depicted that the model was not accepted when all items were included as χ^2=35.47 (p=.000, df=5) and

RMSEA=.210. Both values depict that the model cannot be accepted and that it should be split into two factors. Figure 7.7 depicts the results from the first factor analysis.

Figure 7.7: CFA of transactional leadership



In this figure it can be seen that transactional leadership is explained by two factors. Item 1 and 5 represent one factor whereas, items 2, 3 and 4 represent a second factor. Therefore, a second CFA followed loading the items onto two factors. This time, items 1 and 2 and items 3, 4 and 5 loaded onto two factors as expected. χ^2 for this model was 1.89 (p=.170, df=4) which indicates that the null hypothesis is rejected and therefore, there is goodness of fit in the model and culture fit scale can be represented by two factors. In this case, RMSEA is .08, CFI=.98 and TLI=.91 which demonstrate the goodness of fit of this factor analysis. To further explore the factor structure of the transactional leadership scale, exploratory factor analysis followed. Tables 7.11 and 7.12 report the results of the factor analysis on the transactional leadership dimension.

Table 7.11: Total variance explained - *Transactional Leadership*

	Eigenvalues		
Component	Total	% of Variance	Cumulative %
1	**2.212**	**44.247**	**44.247**
2	**1.213**	**24.263**	**68.510**
3	.762	15.238	83.748
4	.515	10.307	94.055
5	.297	5.945	100.000

Table 7.11 shows the eigenvalues which indicate that there is good evidence for the strength of the structure underlying the individual variables. Factor one accounts for 44.2% of the variance whereas, factor two for 24.3% of the variance. Both of these two factors account for 68.5% of the variance.

Table 7.12: Factor analysis - *Transactional Leadership*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .595 Bartlett Test of Sphericity = 157.277, Significance = .000 VARIMAX with Kaiser Normalisation converged in 3 iterations		
Attributes	**Factor 1**	**Factor 2**
Makes clear what one can expect to receive when performance goals are achieved		.807
Concentrates full attention on dealing with mistakes, complaints and failures	.765	
Keeps track of mistakes	.774	
Directs attention toward failures to meet standards	.902	
Expresses satisfaction when others meet expectations		.820

An analysis of the transactional leadership style indicates that the attributes load on two factors as shown in table 7.12. The Bartlett test and the Kaiser-Meyer-Olkin model produce satisfactory results, which indicate that the data is suitable for factor analysis. Each of the attributes has a factor loading in excess of 0.7. Based on the interpretation of the guidelines on factor analysis this implies that the factor structure is robust. The results from both factor analyses confirm that the transactional leadership scale can be explained by two factors. Factor one refers to *Management by Exception* while factor two is concerned with *Contingent Reward.* Accordingly, these two new variables, shown in figure 7.8, are added to the working data set.

Figure 7.8: The results of the factor analysis of the transactional leadership scale

Makes clear what one can expect to receive when performance goals are achieved Expresses satisfaction when others meet expectations	Contingent Reward
Concentrates full attention on dealing with mistakes, complaints and failures Keeps track of mistakes Directs attention toward failures to meet standards	Management by Exception – Active

7.2.3.3 Passive Leadership

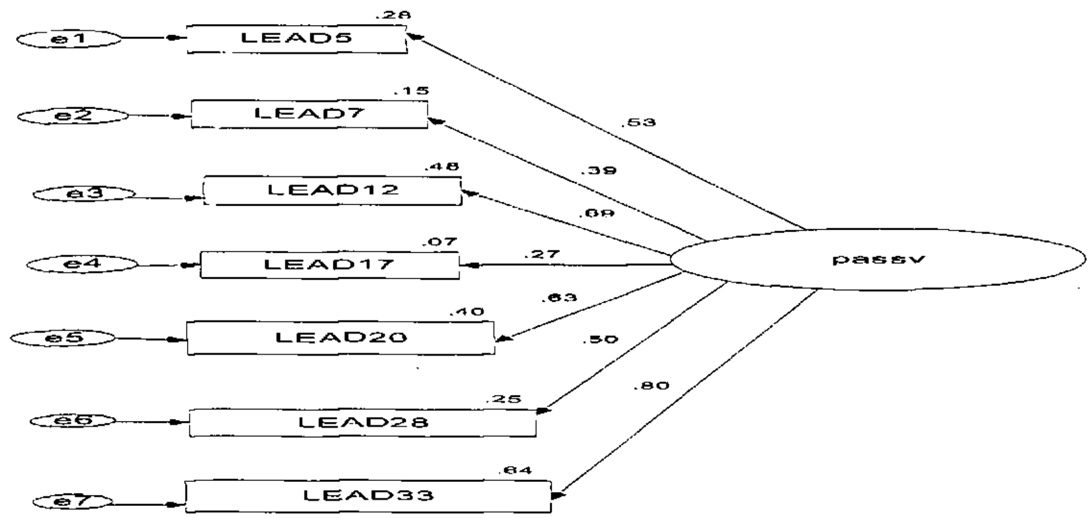
The alpha score of the passive leadership scale is .717 and indicates a high degree of internal reliability. Passive leadership consists of two factors, Management by Exception (Passive) and Laissez-faire as outlined in chapter 4. All these factors are allocated four attributes. The alpha score of Management by Exception (Passive) is .511 which is very low whereas, the alpha score of Laissez-faire leadership is .674. Hair *et al* (2007) stated that an alpha value below 0.6 is not acceptable and does not allow further analysis of the data. This means that Management by Exception (Passive) sub-scale should be dropped according to Cronbach's (1951) guidance that reliability scores should be calculated separately. However, table 7.13 shows that the items of the scale Management by Exception (Passive) and Laissez-faire are highly correlated allowing for reduction analysis of the scale. This means that these two scales combined allow for a good representation and analysis of the passive leadership style as the final alpha score is .687. However, when item LEAD3 (which was not significantly correlated with the other items) was dropped, the alpha score increased to .717, which allows for an even better interpretation of the data.

Table 7.13: Correlations among the items of Management by Exception (Passive) and Laissez- faire leadership scales.

	1	2	3	4	5	6	7
Fails to interfere with problems until they become serious							
Waits for things to go wrong before taking action	.159						
Shows that is a firm believer in 'if it isn't broke, don't fix it'	.209*	.028					
Demonstrates that problems must become chronic before taking action	.101	.445**	.300**				
Avoids getting involved when important issues arise	.330*	.442**	.130	.376**			
Is absent when needed	-.095	.084	.327**	.314**	.141		
Avoid making decisions	.072	.159	.319**	.296**	.208**	.658**	
Delays responding in urgent questions	.289**	.636**	.159	.463**	.387**	.237**	.415**

Since the correlation analysis resulted in high inter-correlations among the variables, factor analysis followed to deduce the items in subscales. To fully understand the dimensions of strategic fit both confirmatory and exploratory factor analyses were used to identify and confirm the factors of the scale. Regarding confirmatory analysis all items of the scale were drawn in the model. The results depicted that the model was not accepted when all items were included as χ^2= 108.41 (p=.000, df=14) and RMSEA=.221. Both values show that the model cannot be accepted and the high p value of the χ^2 indicates that the model should be split into two factors. Figure 7.9 depicts the results from the first factor analysis.

Figure 7.9: CFA of passive leadership



In this figure it can be seen that passive leadership is explained by two factors. Therefore, a second CFA followed loading the items onto two factors. χ^2 for this model was 15.17 (p=.056, df=8) which indicates that the null hypothesis is rejected and therefore, there is goodness of fit in the model and culture fit scale can be represented by two factors. In this case, RMSEA is .08, CFI=.92 and TLI=.96 which demonstrate the goodness of fit of this factor analysis. To further explore the factor structure of the passive leadership seale, exploratory factor analysis followed. The results are presented in tables 7.14 and 7.15.

Table 7.14: Total variance explained – *Passive Leadership*

	Eigenvalues		
Component	Total	% of Variance	Cumulative %
1	**2.914**	**41.636**	**41.636**
2	**1.451**	**20.723**	**62.359**
3	.815	11.636	73.995
4	.646	9.230	83.225
5	.545	7.790	91.015
6	.363	5.190	96.205
7	.266	3.795	100.000

Table 7.14 shows the eigenvalues which indicate that there is good evidence for the strength of the structure underlying the individual variables. Factor one accounts for 41.6%

of the variance whereas, factor two for 20.7% of the variance. Both of these two factors account for 62.4% of the variance.

Table 7.15: Factor analysis – *Passive Leadership*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .712 Bartlett Test of Sphericity = 289.190, Significance = .000 VARIMAX with Kaiser Normalisation converged in 3 iterations		
Attributes	**Factor 1**	**Factor 2**
Waits for things to go wrong before taking action	.874	
Shows that is a firm believer in 'if it isn't broke, don't fix it'		.649
Demonstrates that problems must become chronic before taking action	.646	
Avoids getting involved when important issues arise	.698	
Is absent when needed		.854
Avoid making decisions		.815
Delays responding in urgent questions	.795	

An analysis of the passive leadership style indicates that the attributes load on two factors as shown in table 7.15. Each of the attributes has a factor loading in excess of 0.6. Based on the interpretation of the guidelines on factor analysis this implies that the factor structure is robust. Both factor analysis demonstrate that the passive leadership scale is explained by two factors. Factor one refers to *Reactive Leadership* while factor two is concerned with *Laissez-faire Leadership*. Accordingly, these two new variables, shown in figure 7.11, are added to the working data set.

Figure 7.11: The results of the factor analysis of the passive leadership scale

Waits for things to go wrong before taking action Demonstrates that problems must become chronic before taking action Avoids getting involved when important issues arise Delays responding in urgent questions	Reactive Leadership
Shows that is a firm believer in 'if it isn't broke, don't fix it' Is absent when needed Avoid making decisions	Laissez-faire Leadership

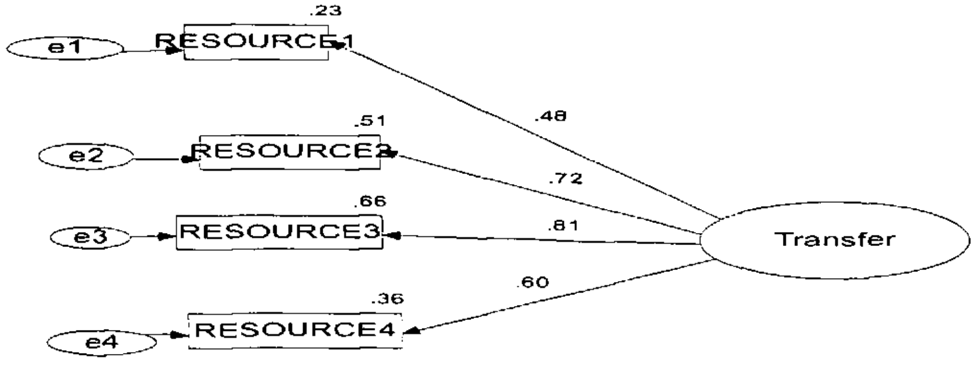
7.2.3.4 Leadership style discussion

The examination of the factor analysis shows that each of the three leadership styles derived by Avolio and Bass (2004) load up to give more than one factor. The analyses indicate that the reliability of the individual variables is acceptable. The eigenvalues indicate that 62.8% of the variance is explained by the factors in the transformational style, 68.5% of the variance by the factors of the transactional leadership style and 62.4% by the factors of the laissez-faire style. Accordingly, it is reasonable to conclude that the dimensions of leadership styles derived adequately cover the concept of leadership in acquisitions.

7.2.4 Transfer of Resources, Capabilities and Knowledge

Section 2, *Events during the Integration Process*, Part B asks the Chief Executive Officers to rate the degree of resources, capabilities and knowledge transferred between the two companies. The alpha score of **.744** indicates a high degree of internal reliability. The high internal reliability score means that this summated scale is appropriate for further statistical analysis. Emphasis on the transfer of resources is based on a seven point Likert-type scale ranging from *Agree* (=1) to *Disagree* (=7). To fully understand the dimensions of transfer of resources, capabilities and knowledge both confirmatory and exploratory factor analyses were used to identify and confirm the factors of the scale. Regarding confirmatory analysis all items of the scale were drawn in the model. The results depicted that the model is accepted when all items were included as χ^2= 3.31 (p=.191, df=2) which indicates that the null hypothesis is rejected and therefore, there is goodness of fit in the model and culture fit scale can be represented by two factors. In this case, RMSEA is .06, CFI=.99 and TLI=.97 which demonstrate the goodness of fit of this factor analysis. Figure 7.11 depicts the results from the factor analysis.

Figure 7.11: CFA for transfer of resources, capabilities and knowledge



To further explore the factor structure of the scale, exploratory factor analysis followed. Tables 7.16 and 7.17 report the results of the factor analysis on the attributes representing the transfer of resources, capabilities and knowledge during the post-acquisition integration process.

Table 7.16: Total variance explained -*Transfer of resources, capabilities and knowledge*

	Eigenvalues		
Component	Total	% of Variance	Cumulative %
1	**2.277**	**56.925**	**56.925**
2	.715	17.874	74.799
3	.624	15.610	90.409
4	.384	9.591	100.000

Table 7.17 shows the eigenvalues which indicate that there is good evidence for the strength of the structure underlying the individual variables. The one factor explains 56.9% of the overall variance. The results are consistent with Birkinshaw *et al* (2000) who reported that it can be loaded on a single factor.

Table 7.17: Factor analysis - *Transfer of resources, capabilities and knowledge*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .725 Bartlett Test of Sphericity = 127.914, Significance = .000	
Attributes	**Factor 1**
Your company has incorporated a lot of the other company's innovation capabilities	.649
A lot of resources are shared between the acquired and the acquiring companies	.795
A lot of functional skills have been transferred between the acquired and acquiring companies	.828
A lot of general management skills have been transferred between the acquired and acquiring units	.734

As shown in table 7.17, the Bartlett test and the Kaiser-Meyer-Olkin model produce significant results, which indicate that the data is highly suitable for factor analysis. Moreover, the results from the exploratory factor analysis confirmed the results of the confirmatory factor analysis and therefore, one factor – *Transfer of Resources, Capabilities and Knowledge* was generated. Accordingly, this new variable based on the factor derived is added to the working data set.

7.2.5 Post-Acquisition Organisational Performance

7.2.5.1 Financial Indicators

Section 3, *Post-Acquisition Performance*, Part A asks the Chief Executive Officers to rate their satisfaction with the financial performance of the acquisition relative to the expectations initially held for it. The alpha score of **.920** indicates a high degree of internal reliability. The high internal reliability score means that this summated scale is appropriate for further statistical analysis. Emphasis on the financial indicators is based on a seven point Likert-type scale ranging from *High Satisfaction* (=1) to *Low Satisfaction* (=7). Tables 7.18 and 7.19 report the results of the factor analysis on the attributes representing the financial indicators of post-acquisition organisational performance.

Table 7.18: Total variance explained - *Financial Indicators*

		Eigenvalues	
Component	Total	% of Variance	Cumulative %
1	**5.776**	**57.764**	**57.764**
2	**1.615**	**16.155**	**73.919**
3	.595	5.954	79.873
4	.523	5.228	85.101
5	.478	4.780	89.881
6	.343	3.430	93.311
7	.227	2.269	95.580
8	.198	1.981	97.561
9	.154	1.539	99.100
10	.090	.900	100.000

Table 7.18 shows that two factors can be extracted from the analysis of the scale with eigenvalues more than 1, which indicates that there is good evidence for the strength of the structure underlying the individual variables. The two factors jointly explain 73.9% of the total variance, with factor one accounting for 57.8% of the variance.

Table 7.19: Factor analysis - *Financial Indicators*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .849 Bartlett Test of Sphericity = 1087.214, Significance = .000 VARIMAX with Kaiser Normalisation converged in 3 iterations		
Attributes	**Factor 1**	**Factor 2**
Return on Assets	.893	
Return on Investment	.891	
Return on Capital Employed	.866	
Return on Sales	.738	
Growth in Market Value		.815
Growth in Revenues		.567
Earnings per share		.829
Share Price		.942
Shareholder Returns		.790
Cash Flow	.683	

The analysis of the financial indicators indicates that the attributes load on two factors as shown in table 7.19. Most of the attributes have a factor loading in excess of 0.7. Based on the interpretation of the guidelines on factor analysis this implies that the factor structure is robust. This factor analysis generated two distinct factors – *Accounting Profits, Stock Returns.* Accordingly, two new variables, shown in figure 7.12, based on the factors derived are added to the working data set.

Figure 7.12: The results of the factor analysis of the financial performance scale

Return on Assets Return on Investment Return on Capital Employed Return on Sales Cash Flow	Accounting Profits
Growth in Market Value Growth in Revenues Earnings per share Share Price Shareholder Returns	Stock Returns

7.2.5.2 Non-financial indicators

Section 3, *Post-Acquisition Performance*, Part B asks the Chief Executive Officers to rate their satisfaction with the non-financial performance indicators of the acquisition relative to the expectations initially held for it. The alpha score of **.817** indicates a high degree of internal reliability. The high internal reliability score means that this summated scale is appropriate for further statistical analysis. Emphasis on the financial indicators is based on a seven point Likert-type scale ranging from *Very Successful* (=1) to *Not at all Successful* (=7). Tables 7.20 and 7.21 report the results of the factor analysis on the attributes representing the non-financial indicators of post-acquisition organisational performance.

Table 7.20: Total variance explained - *Non-financial performance indicators*

	Eigenvalues		
Component	Total	% of Variance	Cumulative %
1	**4.012**	**36.474**	**36.474**
2	**1.782**	**16.201**	**52.675**
3	**1.623**	**14.752**	**67.427**
4	.923	8.387	75.814
5	.739	6.722	82.536
6	.527	4.790	87.326
7	.443	4.029	91.355
8	.351	3.193	94.549
9	.248	2.259	96.807
10	.192	1.748	98.555
11	.159	1.445	100.000

Table 7.20 shows that three factors can be extracted from the analysis of the scale with eigenvalues more than 1, which indicates that there is good evidence for the strength of the structure underlying the individual variables. The three factors jointly explain 67.4% of the total variance, with factor one accounting for 36.5% of the variance.

Table 7.21: Factor analysis - *Non-financial performance indicators*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .693
Bartlett Test of Sphericity = 709.227, Significance = .000
VARIMAX with Kaiser Normalisation converged in 3 iterations

Attributes	Factor 1	Factor 2	Factor 3
Increased R&D output		.873	
Broadened market share			.688
Broadened customer base			.892
Broadened product range			.697
Innovativeness		.880	
Greater efficiency in operations		.760	
Increased productivity	.718		
Reputation of the combined company	.669		
Job satisfaction	.657		
Improved competitiveness of the organisation	.798		
Meeting the strategic goals	.670		

The analysis of the non-financial indicators indicates that the attributes load on three factors as shown in table 7.21. Most of the attributes have a factor loading in excess of 0.7. Based on the interpretation of the guidelines on factor analysis this implies that the factor structure is robust. This factor analysis generated three distinct factors –*Innovation, Market Performance and Organisational Effectiveness*. Accordingly, three new variables, shown in figure 7.13, based on the factors derived are added to the working data set.

Figure 7.13: The results of the factor analysis of the non-financial indicators scale

Increased R&D output Innovativeness Greater efficiency in operations	Innovation
Broadened market share Broadened customer base Broadened product range	Market Performance
Increased productivity Reputation of the combined company Job satisfaction Improved competitiveness of the organisation Meeting the strategic goals	Organisational Effectiveness

7.2.6 Concluding Remarks on the data reduction and reliability analysis

This section focused on data reduction and reliability analysis. It also provided an overview of the characteristics of the various concepts. The results indicate that the survey instrument has a high degree of internal reliability. In all cases, the alpha scores are in excess of .600, which is highly satisfactory. In addition, both the Bartlett Test of Sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy produce significant results, which indicate that the data is highly suitable for factor analysis. The analysis indicates that the majority of the factors are confirmed in this study.

7.3 Descriptive Statistics

This section focuses on presenting the results of the descriptive statistical analysis. Descriptive statistics are frequently used in these types of studies. They are defined by Weiss (2007) as methods for organising and summarising information in a clear and effective way. The previous section presented the factors generated from the questionnaire's items. Although, as mentioned before, the items were screened for normality, it is important to prove this for the factors as well. Moreover, it should also be pointed out that the variables, derived from the factors were summed. This means that the items representing a variable were added in order to present a summated scale. In the analysis that will take place in this section as well as in section 7.4 it should be highlighted that the variables are a result of a summated scale as derived from the factor analysis. The first part of this section provides the normality tests of the variables whereas, the second part provides the sample characteristics.

7.3.1 Normality tests and descriptive statistics

In order to test for normality Kolmogorov- Smirnov (KS) and Shapiro-Wilk tests were used on all the variables as derived from the factor analysis. These tests compare the scores in the sample to a normally distributed set of scores with the same mean and standard deviation. Table 7.22 presents the results of these tests on the summated variables.

Table 7.22: Tests of normality

Variables	K-S	Shapiro- Wilk
Expand product lines and enter new business	.084 (.200)*	.981 (.292)
Deal with interdependencies in a firm's environment	.095 (.087)	.969 (.144)
Achieve economies of scale and scope	.070 (.200)*	.979 (.226)
Similar managerial approaches	.069 (.200)*	.978 (.204)
Similar evaluation and reward criteria	.098 (.200)*	.968 (.207)
Similar strategic orientation	.083 (.200)*	.976 (.125)
Similar innovation and risk-taking strategies	.117 (.097)	.978 (.177)
Similar autonomy and decision-making approaches	.104 (.200)*	.965 (.168)
Transfer of resources, capabilities and knowledge	.091 (.185)	.976 (.158)
Individual consideration	.103 (.099)	.973 (.182)
Intellectual stimulation	.074 (.200)*	.980 (.249)
Idealised behaviour	.084 (.141)	.973 (.199)
Inspirational motivation	.082 (.200)*	.977 (.159)
Contingent Reward	.099 (.200)*	.966 (.084)
Management by exception	.075 (.200)*	.967 (.095)
Laissez-faire leadership	.087 (.200)*	.970 (.252)
Passive leadership	.101 (.186)	.968 (.100)
Accounting profits	.105 (.089)	.969 (.097)
Stock returns	.095 (.136)	.971 (.145)
Innovation	.092 (.200)*	.977 (.112)
Market performance	.111 (.093)	.972 (.106)
Organisational effectiveness	.102 (.178)	.975 (.237)

*This is a lower bound of the true significance as mentioned in the SPSS output

The above table shows the results from the Kolmogorov- Smirnov and Shapiro-Wilk tests. The results in the brackets depict the significance level of the statistic. As it can be seen all the variables are normally distributed since the statistics are not significant. If the tests are not significant ($p<.05$) then, the distribution of the sample is not significantly different from a normal distribution (Field, 2005). Since the variables are normally distributed this allows for further analysis of the data. Table 7.23 shows the means and standard deviations for the factors generated.

Table 7.23: Means and Standard Deviations

Variables	Means	Standard Deviations
Expand product lines and enter new business	25.80	7.07
Deal with interdependencies in a firm's environment	14.16	4.15
Achieve economies of scale and scope	17.15	4.68
Similar managerial approaches	24.16	6.46
Similar evaluation and reward criteria	11.58	2.64
Similar strategic orientation	11.63	4.42
Similar innovation and risk-taking strategies	8.12	2.35
Similar autonomy and decision-making approaches	11.41	3.60
Transfer of resources, capabilities and knowledge	12.17	4.32
Individual consideration	10.64	3.10
Intellectual stimulation	10.42	2.85
Idealised behaviour	17.07	4.48
Inspirational motivation	7.37	2.14
Contingent Reward	8.69	2.41
Management by exception	15.03	3.91
Laissez-faire leadership	23.75	3.44
Passive leadership	16.88	2.61
Accounting profits	12.06	4.97
Stock returns	12.88	6.47
Innovation	11.36	4.19
Market performance	7.55	3.08
Organisational effectiveness	12.41	3.77

7.3.2 Sample characteristics

This section examines the sample characteristics. The areas examined are the industry classification and the type of acquisition in both strategic and market relatedness. Moreover, one of the sample selection criteria was that the acquiring company should have acquired 50.1% of the controlling stake of the target organisation. Therefore, an analysis of the controlling stake is required in order to find out if all the companies are meeting the criteria for further analysis.

7.3.2.1 Industry SIC Code

The sample of this study as mentioned in 6.5.3 consists of two-SIC classification. Respondents are categorised according to industrial classification, service firms or manufacturing firms. The rationale for this is to enable a comparison to be made between two distinctly different sectors. Morck *et al* (1989) found that industry characteristics can be important determinants of acquisition success. Service firms are characterised in many ways with intangibility, inseparability, heterogeneity and perishability traditionally being used to distinguish services from physical products (Greenwood *et al*, 1994). Other characteristics include durability, customisation versus standardisation and the complexity of the assets needed (Lovelock *et al*, 1999). These characteristics enable firms to achieve competitive advantage and drive firm performance. Human capital is an imperative for success in these firms and can drive market performance even when services are in the decline phase of the product life cycle as it will enable the firm to become more innovative and offer differentiated services to achieve a superior market position relative to competitors. In service firms, as a human capital intensive industry, it is hard to achieve competitive advantage and differentiation and therefore, firms are engaging in acquisitions to safeguard their position in the market, gain access to human capital in order to adapt to the pressures and dynamics of their competitive environment.

On the other hand, manufacturing firms build their competitive advantage primarily from capital assets, as they belong to capital-intensive manufacturing industries. Manufacturing capabilities are conceived as stocks of strategic assets which are accumulated through a pattern of investments over time and cannot be easily imitated and good substitutes cannot be found (Ward *et al*, 1996). This implies that the capabilities such as low cost, quality, flexibility and delivery performance that a manufacturer possesses are stocks of strategic assets which have been accumulated through a flow of investments in capability building programs over time (Ward *et al*, 1996). Manufacturing firms engage in acquisitions in order to maximise their market share, increase their profits and respond to dynamics in their competitive environment. Any value created from acquisitions will tend to come from restructuring of the assets or economies of scale and scope (Porter, 1987) rather than organisational issues.

Table 7.24 presents the response rate according to industrial sector. As it can be seen, there are enough responses from both sectors to facilitate a meaningful analysis.

Table 7.24: SIC Classification of the sample

SIC Classification		Frequency	Percentage
Service Firms		77	55.4%
Manufacturing Firms		62	44.6%
	Total	139	100%

7.3.2.2 Strategic Relatedness

In Section 1, Part F, Chief Executive Officers were asked to classify the acquisition according to the strategic relatedness of the acquirer and the target. Four classifications were provided: *Horizontal, Forward Vertical, Backward Vertical and Unrelated.* This question is critical to establish the strategic relatedness of the two organisations. Lubatkin (1983) argued that strategic relatedness is one of the critical factors contributing to acquisition success. Table 7.25 demonstrates the results according to the acquisition classification.

Table 7.25: The strategic relatedness of the sample

Type of Acquisition	Frequency	Percentage
Horizontal Acquisition	108	77.7%
Vertical Acquisition		
-Forward Acquisition	19	13.7%
-Backward Acquisition	4	2.9%
Unrelated	8	5.7%
Total	139	100%

The majority of the acquisitions that took place by U.K. companies in the period 2001-2004 are horizontal acquisitions. This is consistent with the findings of Lipton (2006) and Sudarsanam (2003) who observed that acquisitions in the 5^{th} and 6^{th} wave are taking place to enhance the core competencies of the organisations and help them maximise their market share rather than create conglomerates. However, as there is not enough coverage of all the types of market relatedness, this study will not focus on this type of acquisition classification.

7.3.2.3 Market Relatedness

The next question in the same part required Chief Executive Officers to classify the acquisition according to the relatedness of their geographic market. Acquisitions were classified as *Domestic and Cross-Border*. This classification will allow for an investigation of the practices that companies use when acquiring an organisation in their domestic market or when they use acquisition as the strategy that will enable them to enter a new geographic market. As U.K. markets are faced with saturation and consolidation acquisitions in both domestic and cross-border markets seem to be the alternative for growth, expansion and most importantly survival. Table 7.26 demonstrates the results of this classification. As it can be seen, there are enough responses from both sectors to facilitate a meaningful analysis.

Table 7.26: The market relatedness of the sample

Type of Acquisition	Frequency	Percentage
Domestic	81	58.3%
Cross-Border	58	41.7%
Total	139	100%

Domestic acquisitions are the main strategy for strengthening market share, obtaining new resources and capabilities, and increasing the financial returns of the company. However, there are a considerable number of companies that engage in cross-border acquisitions in their attempt to become more competitive in an era of increased globalisation, capital intensity and increased need for innovation.

7.3.2.4 Controlling stake

Chief Executive officers were also asked to identify the percentage of shares they bought of the target organisation. One of the sample selection requirements was to exclude buy-out of minority stakes. This question was used to further eliminate companies that acquired only small shares of other companies. The results, presented in table 7.27, demonstrate that all the companies in the sample acquired the majority of the target organisation's shares demonstrating that there was an intention of integration between the two organisations.

Table 7.27: The controlling stake acquired

Controlling Stake	Frequency	Percentage
50-74%	5	3.6%
75-100%	134	96.4%
Total	139	100%

Table 7.27 establishes that all the companies in the sample acquired at least 50.1% of the target's shares. The majority of them, 96.4% acquired more that 75% of the target's shares. This analysis meets the criterion set out in the sample selection and allows for the further investigation of all companies in the sample.

7.4 Independent Samples T-Test

This study has argued that to thoroughly study post-acquisition organisational performance one should not assume that acquisitions are homogenous phenomena. Rather, they are complex, dynamic phenomena that have different rates of return depending on the industry, on the company's choice of domestic and cross-border acquisition as well as on the degree of integration. The main aim of this study is to test the deductive model in order to investigate the relationship between leadership styles and post-acquisition organisational performance. It also takes into account that acquisitions are not homogenous phenomena and therefore, the study investigates this relationship under different settings. Descriptive statistics and the use of the independent samples t-test are particularly relevant in order to show if there are any significant differences among the sub-groups of the sample. In this section the results from the independent samples t-test are presented. In this statistic, the main tool used is the mean score which is defined as 'the sum of data divided by the number of pieces of data' (Weiss, 2007:70).

In order to avoid confusion, details of how the sample is split are provided. The companies that were identified were allocated a special number indicating if they belonged to the service or manufacturing industry. This allowed the researcher to categorise the responses according the SIC Code of the company. Further, section F of the questionnaire asked the CEOs to indicate if their acquisition was domestic or cross-border. These two variables, SIC Code and geographic market relatedness were categorical variables indicating 1 for Service/ Domestic and 2 for Manufacturing/ Cross-Border respectively. For the degree of integration the categorisation in High and Low integration was taken from section C of the questionnaire. The second question asked the CEOs to indicate the level of integration of the two companies based on the integration of different aspects of the organisation. The degree of integration was computed by the creation of a summated scale that included these four items. This summated scale was split using the median (4) to categorise high and low integration between the companies of the sample. This allowed the researcher to create two sub-groups in the sample to further investigate the phenomena under study. In the analysis, firstly, differences in items between the groups are presented. Secondly, the differences on the factor scores are also presented in the end of this section to provide a more detailed account of the differences that exist among the sub-groups.

7.4.1 The differences in the sample on the motives for the acquisition

The table 7.28 depicts the motives chosen by the respondents depending on their industrial classification, their level of relatedness and the chosen degree of integration.

Table 7.28: The motives for the acquisition

Motives	SIC CODE		Market Relatedness		Degree of Integration	
	Service	Manuf.	Domestic	Cross-Border	High	Low
Utilise interlocking synergistic qualities	2.31	2.49	2.00	2.70	2.65	2.29
Attain improved competitiveness	2.60	2.66	2.72	2.57	2.69	2.60
Stop a competitor from acquiring the same company	4.79	5.09	4.74	5.11	5.06	4.90
Gain complementary financial features	4.37	4.79	4.47	4.70	4.94	4.43
Utilise the acquiring company's expertise within the acquired company	3.11	4.34	3.53	3.98	4.29	3.53
Improve efficiencies	4.00	4.29	4.24	4.10	4.46	4.00
Penetrate new markets	3.16	3.01	3.40	2.85	3.38	2.92
Improve economies of scale	3.74	3.60	3.64	3.68	4.06	3.45
Gain valuable or potentially valuable assets	3.31	3.06	3.14	3.20	3.42	3.04
Broaden the customer base	2.32	2.34	2.50	2.21	2.31	2.34
Create economies of scale by relevant capacity expansion	3.15	3.35	3.33	3.21	3.75	3.00
Reduce costs and risks of entering a new industry	4.10	4.83	3.84	4.98	4.10	4.71
Fulfil the personal ambitions of the acquiring company's chief executive	5.03	5.26	5.64	4.81	5.38	5.04
Pursue opportunities to sell stock at a profit	5.71	5.90	5.74	5.86	6.02	5.70
Utilise the acquired company's resources	2.77	4.22	3.34	3.74	3.35	4.00

As it can be seen from table 7.28, the sector in which the firms belongs to as well as their choice of acquisition reflects the differences in the motives chosen for the acquisition. As far as the industrial classification is concerned there is only a small difference in the motives chosen between firms belonging to the service and manufacturing industries. The most evident differences appear in three motives. The first difference appears in *utilising the acquiring company's expertise in marketing production, or other areas within the acquired company* ($t=4.112$, $p<.001$), which is chosen mostly by manufacturing companies.

Also, significant difference between the two groups appears in *reducing costs and risks of entering a new industry* (t=2.091, p<.05), which is another motive preferred more by manufacturing firms. Lastly, differences between the groups can be found in *utilising the acquired company's personnel, skills or technology in other operations of the acquiring company* (t=5.076, p<.001), which again, is employed mostly by manufacturing firms. These findings are similar to previous findings in the literature. Ruckman (2005) as well as Paruchuri *et al* (2006) found that manufacturing firms engage in acquisitions to enter a new industry so as to reduce the costs and risks related to internal growth and development of new products. However, these findings contradict Empsom's (2000) findings that service firms also engage in acquisitions to take advantage of the target company's expertise in marketing and customer service.

As far as the market relatedness is concerned significant differences between domestic and cross-border acquisitions appear in four instances. First, *utilising interlocking and mutually stimulating synergistic qualities of the acquired company vis-à-vis the acquiring company* (t=4.154, p<.001) appears to be more evident in cross-border acquisitions whereas, *penetrating new markets by utilising the acquired company's marketing capacities* (t=2.016, p<.05) is mostly preferred by domestic acquisitions. Moreover, significant differences can be found in *reducing costs and risks of entering a new industry* (t=3.264, p<.001), which is more prevailing in cross-border acquisitions and *fulfilling the personal ambitions, vision, or some particular goal of the acquiring company's chief executive* (t=2.471, p<.01), which is more evident in domestic acquisitions. These results corroborate findings of Davis *et al* (2000), Harzing (2002) and Madhok (1997). These studies focused on the motives of international acquisitions and found that organisations acquire in international markets so as to create synergies that would not have been realised if they acquired at their domestic market. Moreover, the results support Ranft and Lord's (2000) findings on domestic acquisitions. The authors found that organisations engage in acquisitions in order to become more innovative and reduce the costs associated with entering a new market.

Finally, when the motives were assessed depending on the level of integration four differences were found between the two groups. The first difference is in the motive *utilising interlocking and mutually stimulating synergistic qualities of the acquired company vis-à -vis the acquiring company* (t=1.959, p<.05), which is chosen by companies engaging in a high level of integration. The companies that underwent a high degree of post-acquisition integration also preferred motives such as *utilising the acquiring company's expertise in marketing production or other areas within the acquired company* ($t=2.362$, $p<.05$) and *creating economies of scale by relevant capacity expansion* ($t=2.376$, $p<.05$). On the other hand, companies that chose not to integrate the target organisation to a great extent showed a preference for *utilising the acquired company's personnel, skills or technology in other operations of the acquiring company* ($t=2.026$, $p<.05$). The above analysis illustrates that the degree of integration chosen by the acquiring company is contingent upon the motives of the acquisition. These findings corroborate Schweizer (2005) assertion that the motives for an acquisition also account for the management of the post-acquisition integration process.

7.4.2 The differences in the sample on the strategies for integration

The following table shows the chosen integration strategy as well as the degree of integration depending on the industrial classification, the market relatedness and the degree of integration.

Table 7.29: Integration strategy

Integration Strategy / Integration Intention	SIC CODE		Market Relatedness		Degree of Integration	
	Service	Manuf.	Domestic	Cross-Border	High	Low
Preservation	4.47	4.23	4.59	4.16	2.83	5.13
Symbiosis	2.35	2.77	2.12	2.91	3.00	2.36
Redesign	4.76	4.64	4.60	4.75	5.77	4.12
Absorption	3.56	3.88	3.36	4.01	5.63	2.75
Degree of Integration	11.29	12.58	11.93	12.06	-	-

Table 7.29 depicts that there are some differences in the sub-groups on the choice of integration strategy as well as the degree of integration. In the case of industrial classification, there are no significant differences in the choice of the integration between the two industrial groups. However, in the case of market relatedness significant differences can be found in *symbiosis* ($t=2.795$, $p<.01$) and *absorption* ($t=1.665$, $p<.05$) which are both preferred by cross-border acquisitions. There were no significant differences in the degree of integration in both the industrial classification and the market relatedness. It can only be suggested that manufacturing firms as well as service firms engaging in cross-border acquisitions showed preference for a greater degree of integration compared to the other companies. These results support findings from Birkinshaw *et al* (2000) as well as Larsson

and Finkelstein (1999) who mentioned that a high degree of integration between the two organisations will enable value creation as there will be exchange and sharing of resources and capabilities. Moreover, the results on the integration strategy chosen also support Schoenberg's (2004) findings that organisations in cross-border acquisition will choose a symbiosis strategy to integrate their operations to maximise the returns and realise synergy.

As far the degree of integration is concerned, there are significant differences between the two sub-groups. As was expected, companies with a low degree of integration showed preference for the *preservation* integration strategy ($t=7.085$, $p<.001$) as this strategy allows for a greater degree of autonomy to the acquired organisation. Companies implementing a high degree of integration showed preference to *symbiosis* ($t=2.142$, $p<.05$), *redesign* ($t=5.495$, $p<.001$) and *absorption* ($t=-8.800$, $p<.001$) strategies.

7.4.3 The differences in the sample on the degree of relatedness between the acquirer and target companies

Table 7.30 shows the differences in the sub-groups in terms of organisational, strategic and culture fit.

Table 7.30: Degree of relatedness

Relatedness	SIC CODE		Market Relatedness		Degree of Integration	
	Service	Manuf.	Domestic	Cross-Border	High	Low
Similar managerial skills	3.61	3.65	3.31	3.86	3.96	3.46
Similar approaches to management problems	3.76	3.96	3.59	4.07	4.52	3.53
Extent to which the communication channels are structured	4.02	4.29	3.98	4.30	4.41	4.04
Similar usage of a sophisticated control and information system for tight formal control	4.44	4.56	4.40	4.58	5.00	4.24
Similar decision-making processes	3.73	4.21	3.91	4.05	4.31	3.82
Similar management styles and practices	3.76	4.18	3.79	4.14	4.60	3.67
Similar evaluation criteria	3.69	4.00	3.47	4.15	3.98	3.80
Similar time period over the which the reward and evaluation process focused (short-run vs. long-run performance)	3.55	3.57	3.71	3.46	3.56	3.56
Similar administration of rewards	3.95	4.31	4.21	4.11	4.23	4.11
Similar business-level strategy	3.47	3.61	3.34	3.69	4.02	3.30
Similar product portfolio	2.42	2.12	2.24	2.26	2.40	2.18
Similar technology	2.73	2.87	2.41	3.09	3.15	2.63
Similar geographical markets	2.77	3.38	3.36	2.93	3.33	2.99
Similar types of customers	2.42	2.57	2.36	2.60	2.54	2.48
You were direct competitors	4.18	3.97	4.45	3.79	4.90	3.63
Similar innovation and action orientation strategies	3.73	4.42	4.05	4.15	4.35	3.98
Similar risk-taking attitudes	3.82	4.16	4.14	3.91	4.27	3.87
Similar degree of autonomy and responsibility delegated for important decisions	4.15	4.09	3.93	4.25	3.98	4.19
Similar perceptions approaches to employee management	3.55	3.92	3.66	3.83	3.65	3.81
Similar performance orientation	3.26	3.77	3.41	3.63	3.77	3.42

Table 7.30 demonstrates that there are differences in the degree of relatedness between the acquirer and the target organisation depending on the industrial classification, the market relatedness and the degree of integration. As far as the industrial classification is concerned, there exist differences in *similar decision-making processes* ($t=2.023$, $p<.05$)

and in *similar management styles and practices* (t=1.704, p<.05), in the organisational fit, which are evident in manufacturing firms. Also, there exist differences in *similar product portfolio* (t=-1.886, p<.05), which is more evident in service firms and in *similar geographic markets* (t=1.912, p<.05), shown mostly in manufacturing firms, in terms of strategic fit. In the culture fit dimension, there are differences in *similar innovation and action orientation strategies* (t=3.126, p<.01) and in *similar performance orientation* (t=2.320, p<.01), which are prevailing in the manufacturing industries. The results point out that companies in manufacturing industries carefully choose their target organisations in term of relatedness. The results are similar to Datta's (1991) research on organisational fit and Krishnan's *et al* (1997) on acquisitions of manufacturing firms. Both studies reported that manufacturing companies will acquire a similar to them organisation so as to increase their scale and scope. These results are also consistent with the analysis of the motives in section 7.3.2.1. It was found that manufacturing firms engage in acquisitions to enhance their economies of scope as well as create economies of scale by entering a new industry.

As far as market relatedness is concerned there are significant differences in *similar managerial skills* (t=2.347, p<.05), in *similar evaluation criteria* (t=3.085, p<.01) as far as the organisational fit between the two organisations is concerned and in *similar products* (t=2.503, p<.05) in terms of the strategic fit. All three of the attributes were more evident in cross-border acquisitions than in domestic acquisitions. Angwin and Savill (1997) as well as Stahl *et al* (2004) indicated that cross-border acquisitions are less successful than domestic integrations. This was attributed to the lack of relatedness between the acquirer and the target (Birkinshaw *et al*, 2000). The results of this study reveal that organisations engaging in cross-border acquisitions paid attention to issues of relatedness such as organisational fit and strategic fit. This is consistent with studies of Vermeulen and Barkema (2001) as well as Tihanyi *et al* (2005) who argued that relatedness is a crucial factor in cross-border acquisitions. However, these findings contradict Morosini's *et al* (1998) study who indicated that culture distance is actually a contributory factor in enhancing cross-border acquisition performance.

Table 7.30 also demonstrates that there is a relationship between the degree of integration and the level of fitness between the acquirer and the target organisation. It shows that acquiring companies that perceive they have similarities with the target organisation in terms of organisational and strategic fit are more likely to integrate the two organisations to a higher extent than those that do not. Differences between companies engaging in a high degree of integration and those choosing a low degree of integration can be found in *similar managerial skills* (t=2.019, p<.05), *similar approaches to management problems* (t=3.976, p<.001), *usage of a sophisticated control and information system for tight formal control* (t=-3.047, p<.01), *similar management styles and practices* (t=-3.732, p<.001), *similar business-level strategy* (t=-2.860, p<.01) and in the fact that the acquiring and target companies were *direct competitors* (t=3.733, p<.001). This is consistent with the theoretical background of the process school of thought. Under this school of thought, the greater the similarities between the two organisations are, the greater the integration of the two organisations will be (Beckman and Haunschild, 2002; Birkinshaw *et al*, 2000; Larsson and Finkelstein, 1999). However, it should be noted that Morosini's *et al* (1998) and Tihanyi's *et al* (2005) findings contradict the above statement as they reported that differences in the cultures between the two organisations can actually create synergies and enhance subsequent acquisition performance. Therefore, these results support the literature on the process school of thought but at the same time contradict results from the culture school of thought on national culture fit.

7.4.4 Differences in the sample on the leadership style

Table 7.31 shows the different leadership styles and attributes chosen by the firms in the sample depending on their industrial classification, the market relatedness and the degree of integration chosen.

Table 7.31: Style of leadership

Leadership	SIC CODE		Market Relatedness		Degree of Integration	
	Service	Manuf.	Domestic	Cross-Border	High	Low
Transformational						
Individual Consideration	10.27	10.94	10.17	10.98	10.98	10.46
Intellectual Stimulation	9.68	11.01	10.59	10.30	10.60	10.32
Idealised Behaviour	16.81	17.29	15.81	17.98	17.35	16.92
Inspirational Motivation	6.98	7.69	6.95	7.68	7.44	7.34
Transactional Leadership						
Management by Exception	15.26	14.84	8.52	8.81	8.65	8.71
Contingent Reward	8.71	8.68	15.48	14.70	15.19	14.95
Passive Leadership						
Reactive Leadership	24.05	23.51	23.93	23.62	23.90	23.67
Laissez-faire Leadership	16.87	16.88	16.91	16.85	16.52	17.07

Table 7.31 shows that there are differences in the transformational leadership attributes shown by leaders in service organisations and manufacturing firms. *Intellectual stimulation* (t=2.813, $p<.01$) and *inspirational motivation* (t=1.945, $p<.05$) are the two attributes with the most significant differences between the sub-groups. Both these attributes are preferred by the manufacturing firms in the post-acquisition integration process. In terms of market relatedness, there are differences in *idealised behaviour* (t=2.883, $p<.01$) and *inspirational motivation* (t=2.003, $p<.05$) attributes which are exhibited mostly by organisations engaging in cross-border acquisitions. In the case of the degree of integration, no significant differences were found between the companies that engaged in a high degree of integration and those that preferred a lesser degree of integration.

The results corroborate studies of Empsom (2000) who argued that in service firms, elements of transformational leadership will not be evident in acquisitions. The results indicate that elements of transformational leadership are more evident in manufacturing firms when compared to the service industries. The results contradict Yammarino and Bass's (1990) findings who argued that in manufacturing firms the effect of leadership will be more evident. The presence of leadership in cross-border acquisitions substantiates studies of Fink and Holden (2005), Morosini *et al* (1998) and Waldman (2004). These studies argued that exhibit of transformational leadership elements are crucial in cross-border transactions. This is due to the nature of cross-border acquisitions, the presence of unique challenges due to different economic, institutional and cultural structures (House *et al*, 2004).

7.4.5 Differences in the sample on the transfer of resources

Table 7.32 depicts the differences in the sub-groups of the sample on their choice of transferring resources, capabilities and knowledge between the acquiring and the target organisation.

Table 7.32: Transfer of resources

Transfer of Resources/ Capabilities/Knowledge	SIG CODE		Market Relatedness		Degree of Integration	
	Service	Manuf.	Domestic	Cross-Border	High	Low
Transfer of innovation capabilities	3.44	3.78	3.66	3.60	3.75	3.56
Transfer of resources	2.44	2.52	2.40	2.54	2.96	2.23
Transfer of functional skills	2.92	3.13	3.03	3.04	3.69	2.69
Transfer of management skills	3.24	2.86	2.78	3.21	3.29	2.89

The independent t-test did not yield any significant differences ($p<.05$) in the sub-groups of industrial classification and market relatedness. However, in the last sub-group 'degree of integration', *transfer of resources between the acquiring and the acquired companies* ($t=4.252$, $p<.001$) as well as *transfer of functional skills between the acquiring and the target organisation* ($t=3.723$, $p<.001$) have the most significant differences. As expected, a higher degree of resources, capabilities and knowledge occurred in acquisitions with a high degree of integration than in those with a lesser degree of integration.

The results are consistent with the process school of thought. The school has maintained that the transfer of resources and the transfer of functional skills are required for an effective integration of the two organisations (Paruchuri *et al*, 2006). Moreover, the results support studies of Ajuha and Katila (2001), Anand and Delios (2002), Bresman *et al* (1999) and Zollo and Singh (2004) on the importance of transferring resources, capabilities and knowledge between the acquiring and target organisations. These studies indicated that this transfer and exchange of resources, capabilities and specific knowledge will facilitate the integration process and will lead to realisation of synergies as well as enhanced subsequent acquisition performance.

7.4.6 Differences in the sample on the satisfaction with the financial performance

Table 7.33 demonstrates the results of the independent t-test among the sub-groups of the sample on the satisfaction that these groups showed with the financial indicators of post-acquisition organisational performance.

Table 7.33: Financial Indicators

Financial Indicators	SIC CODE		Market Relatedness		Degree of Integration	
	Service	Manuf.	Domestic	Cross-Border	High	Low
Return on Assets	2.23	2.48	2.21	2.48	2.54	2.27
Return on Investment	2.16	2.71	2.12	2.72	2.75	2.32
Return on Capital Employed	2.19	2.47	2.24	2.42	2.27	2.48
Return on Sales	2.27	2.53	2.29	2.51	2.83	2.20
Growth in Market Value	2.39	2.51	2.33	2.54	2.71	2.32
Growth in Revenues	2.32	2.77	2.36	2.72	2.69	2.51
Earnings Per Share	2.50	2.69	2.36	2.78	2.52	2.65
Share Price	3.03	2.62	2.60	2.95	2.73	2.85
Shareholder Returns	2.40	2.49	2.29	2.57	2.58	2.38
Cash Flow	2.45	2.47	2.52	2.42	2.75	2.31

Table 7.33 demonstrates that there are differences in the expressed satisfaction with performance of the sub-groups of the sample with the acquisition. In terms of industrial classification, there are differences in *return on investment* ($t=2.438$, $p<.01$) and in *growth in revenues* ($t=1.951$, $p<.05$). Manufacturing firms are more satisfied in these terms than service firms are when assessing the performance effects of the acquisition. In the market relatedness group there are differences only in *return on investment* ($t=2.612$, $p<.01$) with cross-border acquisitions performing better than domestic in this particular indicator of performance. Finally, firms adopting a high degree of integration have significant differences with those that choose a lesser degree of integration in *return on sales* ($t=-3.082$, $p<.01$) and *cash flow* (t=-2,128, $p<.01$).

The results on the industrial classification sub-group point out the difficulties that exist in measuring success of acquisitions in service industries. As service firms are providing intangible goods it is more complicated to assess the exact impact that acquisitions have based on these two indicators (Greenwood *et al*, 1994; Ramaswamy, 1997). The results, also, confirm studies of Kapoor and Lim (2007), Park (2002) who found that manufacturing firms experience high return on investment and growth in revenues when they engage in acquisitions. It could be argued that manufacturing firms are exhibiting higher satisfaction with the subsequent acquisition performance because they have a high degree of relatedness with their target firm (see table 7.29) as well as they exhibit elements of transformational leadership (see table 7.30). Therefore, these results are consistent with the process school of thought (Larsson and Finkelstein, 1999). Moreover, cross-border acquisitions are performing better than domestic transactions when return on investment is investigated. This implies that cross-border acquisitions can yield higher performance when compared to the domestic acquisitions. This is consistent with findings of Altunbas and Marques (2008), Meyer and Altenborg (2007), Morosini *et al* (1998) and Seth *et al* (2002) who found that cross-border acquisitions increase the subsequent financial performance of the combined organisation. Lastly, the results on the performance of the acquisition depending on the degree of integration reveal that higher results are expected when the degree of integration is high. This is coherent with results of King *et al* (2004), Uhlenbruck *et al* (2006) as well as Zollo and Singh (2004) who found that organisations that fully integrate their operations, departments and functions can enjoy better financial results in the long-term while realising synergy.

7.4.7 Differences in the sample on the satisfaction with the non-financial performance

Table 7.34 shows the results of the independent t-test on the satisfaction of the sub-groups of the sample with the non-financial indicators of performance.

Table 7.34: Non-financial indicators

Non-Financial Indicators	SIC CODE		Market Relatedness		Degree of Integration	
	Service	Manuf.	Domestic	Cross-Border	High	Low
Increased R&D output	3.00	5.14	3.91	4.38	4.67	3.93
Broadened market share	2.10	2.22	2.28	2.09	2.21	2.14
Broadened customer base	2.61	2.40	2.69	2.36	2.35	2.57
Broadened product range	2.65	3.09	2.90	2.89	2.67	3.01
Innovativeness	2.82	4.26	3.28	3.86	3.85	3.49
Greater efficiency in operations	3.39	3.69	3.64	3.49	4.31	3.15
Productivity	3.39	3.57	3.53	3.43	3.98	3.23
Reputation of the combined company	2.18	2.34	2.16	2.35	2.77	2.00
Job satisfaction	2.79	2.73	2.84	2.64	2.94	2.66
Improved competitiveness	1.98	2.40	2.03	2.35	2.42	2.11
Meeting the strategic goals	1.61	1.74	1.57	1.77	1.71	1.67

Table 7.34 depicts that companies in different industrial classification achieved different results in terms of satisfaction with the non-financial indicators of performance of the acquisition. There are differences in *increased R&D output* ($t=7.648$, $p<.001$), in *innovativeness* ($t=5.790$, $p<.001$) and in *improved competitiveness of the organisation*

($t=2.650$, $p<.01$). The results show that manufacturing firms achieved greater satisfaction with these indicators than service firms. Significant differences were also found in the sub-group of market relatedness. Different satisfaction levels were evident in *innovativeness* ($t=2.143$, $p<.05$) and in *improved competitiveness of the organisation* ($t=1.931$, $p<.05$). Cross-border acquisitions are outperforming domestic acquisitions in terms of innovativeness and improved competitiveness. This indicated that cross-border acquisitions are most successful in achieving these objectives than domestic acquisitions. Finally, there were differences in *increased R&D output* ($t=2.128$, $p<.05$), *greater efficiency in operations* ($t=4.494$, $p<.001$), *productivity* ($t=2.939$, $p<.01$) and *reputation of the combined company* ($t=4.298$, $p<.01$) between the companies on their choice for the degree of integration. Companies achieving a higher degree of integration showed more satisfaction with these indicators than companies with a lower extent of integration.

The results of table 7.34 are consistent with the results of table 7.33. Manufacturing firms are exhibiting higher satisfaction with non-financial performance indicators than service firms. This is due to the intangibility of services and the difficulty in measuring the success of acquisitions in the service industries (Empsom, 2000). As far as market relatedness is concerned, cross-border acquisitions are showing higher satisfaction with non-financial indicators than domestic acquisitions. Companies that engaged in cross-border acquisitions achieved higher innovativeness in their processes as well as improved competitiveness when compared to organisations that only acquired in their domestic markets. These results are consistent with Ajuha and Katila (2001), Heeley *et al* (2006), Kotabe *et al* (2007) and McEvily *et al* (2004) who reported that cross-border acquisitions enhance the innovative performance of the combined organisations. Moreover, the results on increased competitiveness corroborate the studies of Morosini *et al* (1998) and Seth *et al* (2002) who found that cross-border acquisitions are outperforming domestic ones as they become more competitive. It could be argued that this could be due to the transfer of resources, capabilities and knowledge (as indicated in table 7.32) between the two organisations as also supported by the process school of thought. Finally, acquisitions with a high degree of integration show increases in R&D output, in efficiency of operations, in productivity and in the reputation of the combined company. These increases could be due to the relatedness of the two organisations (as indicated in table 7.30) as sustained from the process school of thought (Birkinshaw *et al*, 2000; Larsson and Finkelstein, 1999;

Schoenberg, 2004) and the exchange and sharing of resources, which is imperative for the success of an acquisition (Barkema and Schijven, 2008; Haleblian *et al*, 2006).

7.4.8 Independent T-Test for the factors

The previous sections have presented the results from the independent T-Tests on all the items. This section and table 7.35 show the results from the T-Test on the factor scores as they were generated in section 7.2.

Table 7.35: Independent T-Test on the factors

Variables	SIC Code		Market Relatedness		Degree of Integration	
	Service	Manuf	Domestic	Cross Border	High	Low
Expand product lines and enter new business	26.40	25.05	25.43	26.31	24.76*	27.77*
Deal with interdependencies in a firm's environment	14.53	13.69	14.48	13.71	13.79	14.85
Achieve economies of scale and scope	18.30*	15.73*	17.79*	16.26*	16.77	17.88
Similar managerial approaches	24.84	23.31	25.00*	22.98*	22.77*	26.79*
Similar evaluation and reward criteria	11.88	11.19	11.72	11.38	11.47	11.77
Similar strategic orientation	11.53	11.74	11.74	11.47	10.91*	12.98*
Similar innovation and risk-taking strategies	8.57*	7.55*	8.06	8.19	7.85*	8.63*
Similar autonomy and decision-making approaches	11.78	10.95	11.70	11.00	11.42	11.40
Transfer of resources, capabilities and knowledge	12.29	12.03	12.40	11.86	11.37*	13.69*
Individual consideration	10.27	10.94	10.17	10.98	10.98	10.46
Intellectual stimulation	9.68*	11.01*	10.59	10.30	10.60	10.32
Idealised behaviour	16.81	17.29	15.81*	17.98*	17.35	16.92
Inspirational motivation	6.98*	7.69*	6.95*	7.68*	7.44	7.34
Contingent Reward	15.26	14.84	8.52	8.81	8.65	8.71
Management by exception	8.71	8.68	15.48	14.70	15.19	14.95
Laissez-faire leadership	24.05	23.51	23.93	23.62	23.90	23.67
Passive leadership	16.87	16.88	16.91	16.85	16.52	17.07
Accounting profits	12.65	11.32	12.54	11.38	11.37*	13.35*
Stock returns	13.08	12.65	13.56	11.95	12.70	13.23
Innovation	13.09*	9.21*	11.74	10.83	10.58*	12.83*
Market performance	7.71	7.35	7.33*	7.86*	7.73	7.23
Organisational effectiveness	12.78	11.95	12.83*	11.83*	11.67*	13.81*
Preservation	4.47	4.23	4.59	4.16	2.83*	5.13*
Symbiosis	2.35	2.77	2.12*	2.91*	3.00*	2.36*
Redesign	4.76	4.64	4.60	4.75	5.77*	4.12*
Absorption	3.56	3.88	3.36*	4.01*	5.63*	2.75*
Degree of Integration	11.29	12.58	11.93	12.06	-	-

In table 7.35 in the values that there is a sign (*) next to the value, it indicates that there are significant differences for this variable in the subgroups. The results indicate that there are significant differences among the subgroups even when the items are summated according to the factor analysis. It is important to point out that there are differences in the factors of the dependent variable, post-acquisition organisational performance, and on the independent variable, leadership styles among the subgroups. This is very important finding that will allow the researcher to proceed to the hierarchical regressions, analysed in chapter 8, and to split the sample in three sub-groups according to the SIC Code, the geographic market relatedness and the degree of integration between the two organisations. The previous sections have analysed the importance of the differences among the sub-groups and provided the theoretical rationale behind these differences. Moreover, the analysis sections 7.4.6 and 7.4.7 on the performance indicators provided also the authors theoretical conclusions based on the results shown in previous sections and tables. This means that there is also theoretical support and conclusions to support the differences between the sub-groups to confirm the statistical results.

7.5 Concluding Remarks

The above sections have presented a univariate analysis of the data collected on the 139 acquisitions. Broadly speaking, and where comparisons are possible, the picture generated with the analysis of the results is consistent with those of other empirical studies of acquisitions (e.g. Angwin, 2007; Schoenberg, 2004; Schoenberg, 2006; Very *et al*, 1997, Weber *et al*, 1996). Although a picture of a 'typical' acquisition can be painted, it is important to note that variations in acquisition characteristics and performance were found within the sample. The presence of such variations is obviously vital if the sample is to be used to establish relationships between variables, as in the present case. The significant differences between the sub-groups of the sample indicate that the data are highly suitable for further analysis and assessment of the deductive model. This allows for testing the relationship between leadership and post-acquisition organisational performance in different settings and acquisition conditions simultaneously, something that the present literature has neglected (see for example: Capron *et al*, 1998; Krishnan *et al*, 1997; Saxton and Dollinger, 2004; Stahl and Voigt, 2008).

The above sections have also discussed the reduction of the raw questionnaire data to a form suitable for use in the testing of the study's hypotheses. Factor analysis confirmed the unidimensionality of all the scales. Where applicable, a description of the procedure employed has been provided. Importantly, this data reduction process identified eight separate dimensions of leadership styles and five separate dimensions of acquisition performance within the raw data. Table 7.36 summarises the complete set of this study's variables extracted from the raw data.

Table 7.36: Summary of the study's variables

Variables
Dependent Variable: Post-Acquisition Organisational Performance
Independent Variables: Transformational Leadership • Individual Consideration • Intellectual Stimulation • Idealised Behaviour Transactional Leadership • Contingent Reward • Management by Exception Passive Leadership • Laissez-faire Leadership • Passive Leadership
Control Variables: **Motives** • Expand product lines and enter new business • Deal with interdependencies in a firm's environment • Achieve economies of scale and scope **Organisational Fit** • Similar managerial approaches • Similar evaluation and reward criteria **Strategic Fit** • Similar strategic orientation **Culture Fit** • Similar innovation and risk-taking strategies • Similar autonomy and decision-making approaches **Size** **Experience** **Transfer of Resources**

Chapter 8:

Hypotheses Testing: Enhancing Post-acquisition Performance

8.1 Preamble

This chapter presents the results of the hypotheses analyses. More specifically, the aim of this chapter is to statistically test the deductive model depicted in figure 1.1. The chapter examines the following:

- the association between combination potential and post-acquisition organisational performance,
- the association between the integration strategy chosen and post-acquisition organisational performance,
- the association between leadership styles and post-acquisition organisational performance,
- the association between relatedness, transformational leadership and post-acquisition organisational performance.

To meet the above objectives ordinary least squares regression, moderated multiple regression, hierarchical regression and backward deletion regression were employed. Regression is a tool frequently employed by researchers to test the validity of hypothesised functional relationships relating to acquisition performance. Ordinary least squares regression was considered suitable in the present study as it is a technique that can measure the effects of several factors concurrently (Hair *et al*, 2007). In this case, it measures the relationship between several independent variables and the dependent variable of post-acquisition organisational performance.

8.2 The association between the combination potential and post-acquisition organisational performance

The process school of thought argues that for an acquisition to be successful certain factors from the pre-acquisition process to the management of the post-acquisition process should be met. This section provides the exploratory regression analyses between the factors of the combination potential and the post-acquisition organisational performance. The aim of this section is to investigate the effect that the combinational potential variables have on acquisition performance so as to determine the inclusion of these associations in the final assessment of the deductive model.

8.2.1 The association between acquisition motives and performance

The literature argues that motives are linked to acquisition performance (Napier, 1989; Walter and Barney, 1990) and are directly linked with post-acquisition issues such as changes in organisational practices and acquisition outcomes. Hypothesis 1(a) examines the association between the motives for the acquisition and post-acquisition integration process. Table 8.1 presents the results of the regression analysis.

1(a) There is a positive association between the motives of the acquisition and performance

Table 8.1: The association between motives and performance

Model	B	(SE)	β
(Constant)	15.885	(6.311)	
Expand product lines and enter new business	.635	(.173)	.285**
Deal with interdependencies in a firm's environment	.815	(.293)	.214*
Achieve economics of scale and scope	.727	(.266)	.216*

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2= .24, Adjusted R^2=.22 *p<.01, **p<.001, D-W Statistic: 1.856

Figure 8.1: P-P plot and Scatterplot- ***Motives for the acquisition***

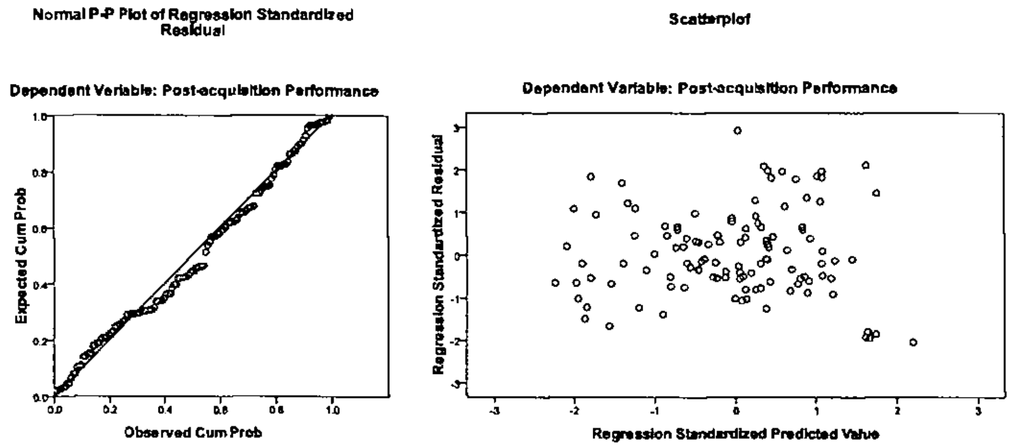


Table 8.1 demonstrates the relationship between the different motives and post-acquisition organisational performance. The most significant association is between *expanding product lines and enter new business* (β=.285, p<.001). However, there are also significant relationships between *dealing with interdependencies in a firm's environment* (β=.815, p<.01) and *achieving economies of scale and scope* (β=.727, p<.01) and performance. The motives for the acquisition account for 24% of the variation in post-acquisition organisational performance. F-ratio is 14.212, which is significant at p<.001. This demonstrates that there is less than a 0.1% chance that an F-ratio would happen by chance alone. The goodness of fit of this model is shown by the R^2 and the adjusted R^2. If the value of the adjusted R^2 is close to the value of R^2, then, the cross-validity of the model is good. In this case R^2 is .24 and adjusted R^2 is .22, which demonstrates the cross-validity of the model. As all the motives are significantly associated with post-acquisition organisational performance, they will be included in testing the deductive model. Moreover, figure 8.1 shows the linearity, normality and homoscedasticity of the relationship. From the results above it can be seen that hypothesis 1(a) is supported as all the factors of motives are positively associated with acquisition performance.

The literature has highlighted that organisations should have clear objectives in order to realise synergy and create value. An acquisition to be successful should aim to maximise shareholders wealth and create synergy (Marks and Mirvis, 2001). Table 8.1 demonstrates that in the 6th M&As wave the major motives underlying acquisitions are strategic. This is consistent with the dynamics that exist in this wave as outlined in chapter

2. These results are consistent with other work on the motives for acquisitions and their link with performance. Bergh (1997) and Ranft and Lord (2002) reported positive performance results when acquisitions occur to expand current product lines and enter new business. Similarly, Trautwein (1990) and Hitt *et al* (2007) found that acquisition performance is positively related with motives such as achieving economies of scale and scope. Finally, acquisitions occur to deal with interdependencies in a firm's environment. Birkinshaw *et al* (2000) and Bower (2001) reported positive results when companies employ this strategy. The finding that no single motive dominates the acquisitions is consistent with Chatterjee (1986) and Walter and Barney (1990) that acquisitions occur to accomplish several objectives simultaneously.

8.2.2 The association between organisational fit and performance

Organisational fit has been seen in the literature as one of the main predictors of acquisition performance. It is advocated that careful selection of the target organisation based on similarities in managerial approaches and evaluation and reward criteria enhances performance (Datta, 1991). Hypothesis 1(b) relates to the association between elements of organisational fit and post-acquisition organisational performance. Table 8.2 presents the findings of the analysis.

1(b) There is a positive association between organisational fit and performance

Table 8.2: The association between organisational fit and performance

Model	B	(SE)	β
(Constant)	27.628	(6.434)	
Similar managerial approaches	1.081	(.191)	.443*
Similar evaluation and reward criteria	.218	(.467)	.036

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2=.21, Adjusted R^2=.19, *p<.001, D-W: 1.798

Figure 8.2: P-P plot and Scatterplot- *Organisational Fit*

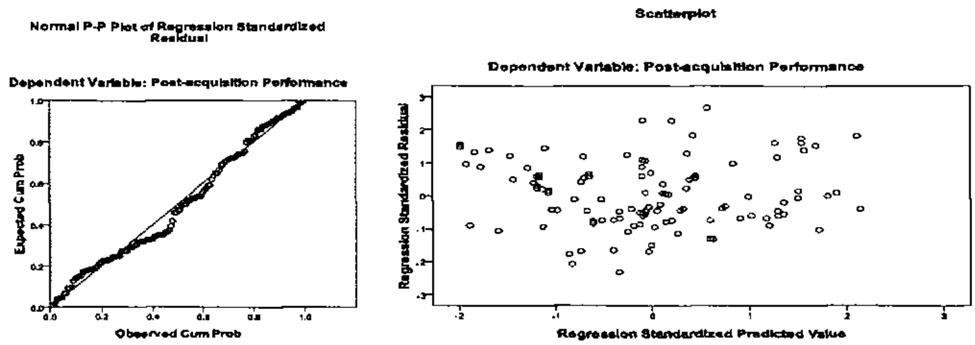


Table 8.2 demonstrates that of the two factors that constitute the organisational fit scale only *similar managerial approaches* has a significant impact on post-acquisition organisational performance (β=.443, p<.001). At the same time, there is no significant prediction of the outcome variable from *similar evaluation and reward criteria.* Organisational fit accounts for 21% of the variation in the post-acquisition organisational performance. F-ratio is 17.501, which is significant at p<.001. In this case R^2 is .21 and adjusted R^2 is .19, which demonstrates the cross-validity of the model. Moreover, figure 8.2 shows the linearity, normality and homoscedasticity of the relationship. *Similar managerial approaches* is the only factor of organisational fit that is significantly associated with performance and hence, only this variable will be retained for the analysis of the deductive model. The results of this study support the results of the first study on organisational fit. Datta (1991) found no significant relationship between similar evaluation and reward criteria and performance. Hence, hypothesis 1(b) is supported and also confirmed studies of Datta (1991) and Schoenberg (2004) who found significant results only on similar managerial approaches. Therefore, it can be argued that research on organisational fit should mostly focus in the future on this factor and not include similar evaluation and reward criteria in investigating the effect that organisational fit has on post-acquisition organisational performance.

8.2.3 The association between strategic fit and performance

Strategic fit is seen as fundamental for reaching synergy realisation (Larsson and Finkelstein, 1999). Undergoing a strategic fit analysis is expected to lead to higher post-acquisition organisational performance. Hypothesis 1(c) investigates the association between elements of organisational fit and post-acquisition organisational performance. Table 8.3 presents the findings of the analysis.

1(c) There is a positive association between strategic fit and performance

Table 8.3: The association between strategic fit and performance

Model	B	(SE)	β
(Constant)	41.716	(3.541)	
Similar strategic orientation	1.252	(.285)	.352*

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2=.12, Adjusted R^2=.12,*p<.001, D-W: 1.532

Figure 8.3: P-P plot and Scatterplot- *Strategic Fit*

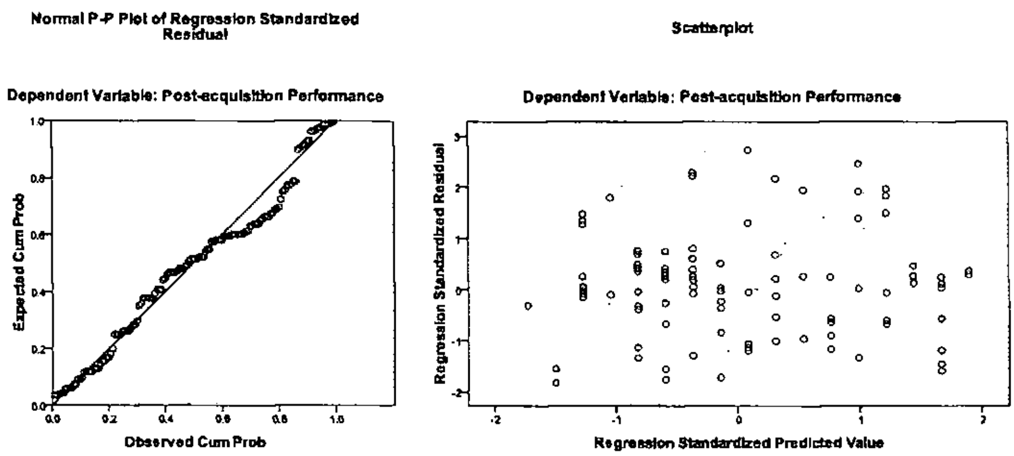


Table 8.3 demonstrates that similar *strategic orientation* has a significant impact on post-acquisition organisational performance (β=.285, p<.001). Strategic fit accounts for 12.4% of the variation in the post-acquisition organisational performance. F-ratio is 10.434, which is significant at p<.001. In this case R^2 is .12 and adjusted R^2 is .12, which demonstrates the cross-validity of the model. *Similar strategic orientation* is the only significant predictor of performance and hence, will be added in the final assessment of the deductive model. Moreover, figure 8.3 shows the linearity, normality and homoscedasticity of the relationship. The results support hypothesis 1(c) and are consistent with the literature on strategic fit (Lubatkin, 1987; Larsson and Lubatkin, 2001) which indicated that strategic fit is positively associated with post-acquisition performance. Strategic fit is a predictor of post-acquisition organisational performance and companies take this into account when selecting their target.

8.2.4 The association between culture fit and performance

Culture fit is also important in achieving higher acquisition performance. The success or failure of the integration process and the subsequent acquisition performance is dependent on the culture fit between the acquirer and the target (Weber, 1996). Hypothesis 1(d) investigates the association between elements of culture fit and post-acquisition organisational performance. It should be noted that culture fit in this study refers to organisational culture similarities. Table 8.4 presents the findings of the analysis.

1(d) There is a positive association between culture fit and performance

Table 8.4: The association between culture fit and performance

Model	B	(SE)	β
(Constant)	28.047	(4.811)	
Similar innovation and risk-taking strategies	3.004	(.550)	.449*
Similar autonomy and decision-making approaches	.336	(.360)	.077

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2= .24, Adjusted R^2=.22,*p<.001, D-W: 1.713

Figure 8.4: P-P plot and Scatterplot- ***Culture Fit***

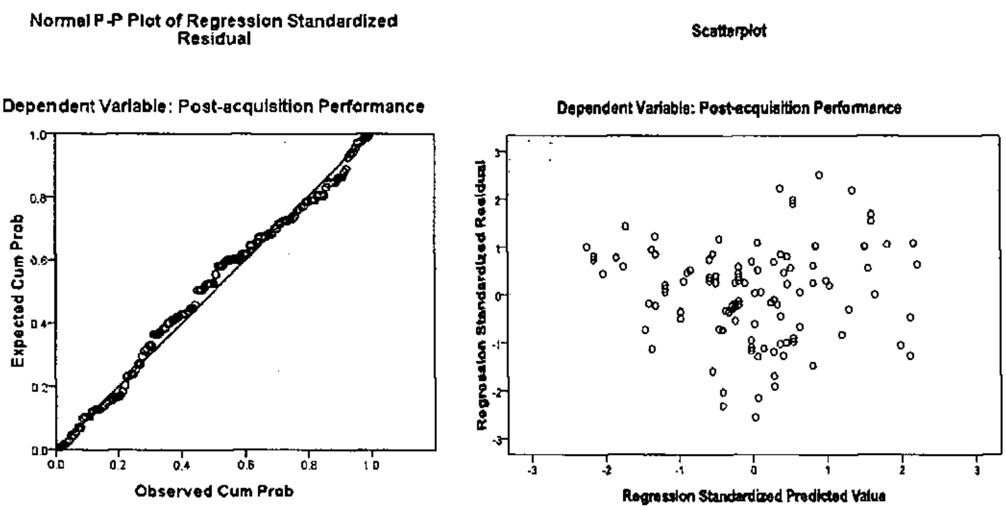


Table 8.4 demonstrates that *similar innovation and risk-taking strategies* have a significant impact on post-acquisition organisational performance (β=.449, p<.001). At the same time *similar autonomy and decision-making approaches* do not predict performance. Culture fit accounts for 24% of the variation in the post-acquisition organisational performance. F-ratio is 20.965, which is significant at p<.001. In this case R^2 is.24 and adjusted R^2 is.22, this demonstrates the cross-validity of the model. Similarly, only *similar*

innovation and risk-taking strategies will be retained for further assessment of the deductive model. Moreover, figure 8.4 shows the linearity, normality and homoscedasticity of the relationship. Weber (1996) also found a positive relationship between similar innovation and risk-taking strategies and performance. However, Weber (1996) found that autonomy was associated positively and significantly with performance. Datta and Grant (1990) also found a significant relationship between autonomy and post-acquisition organisational performance. This research, although it contradicts findings from Weber (1996) and Datta and Grant (1990), confirms the results from Weber and Schweiger's (1992) and Schoenberg's (2004) studies where no significant effects of similarities in autonomy and decision-making approaches were reported. The finding that only similarities in the attitude towards innovation and risk appear to have an impact on acquisition performance implies that a similarity in risk orientation is the one component of corporate culture that most fully captures the complex set of dynamics that can be present in an acquisition.

8.2.5 The association between relative size and performance

The ability of an acquiring firm to assimilate a target firm may be impacted by their relative size as it is easier for a larger firm to integrate resources from a smaller firm (Powell, 1997). Existing research suggests that, in general acquisitions of smaller firms by larger firms should lead to higher performance (Homburg and Bucerius, 2006). Hypothesis 1(e) examines the association between relative size and post-acquisition organisational performance. Table 8.5 presents the findings of the analysis.

1(e) There is a positive association between relative size of the companies and performance

Table 8.5: The association between relative size and performance

Model	B	(SE)	β
(Constant)	60.665	(2.728)	
Relative Size	2.624	(1.423)	.156

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2= .024, Adjusted R^2=.017, D-W: 1.020

Figure 8.5: P-P plot and Scatterplot- *Relative Size*

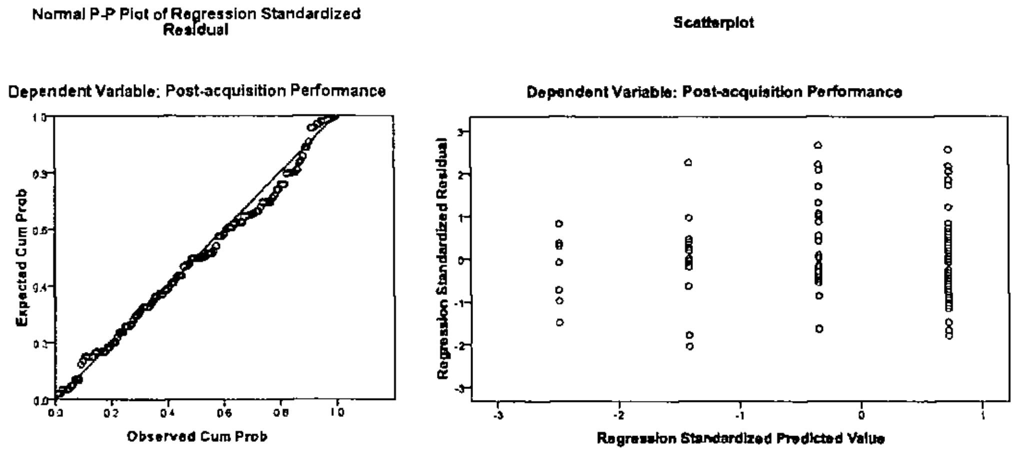


Table 8.5 demonstrates that *relative size* does not have a significant impact on post-acquisition performance alone. It can predict performance as the significance level is close to p<.05 (β=.067) but it cannot be regarded as the sole contributor. *Relative size* only accounts for 2.4% of the variation of performance. R^2 is .024 and adjusted R^2 is .017. However, as *relative size* has consistently been used as a control variable in most quantitative studies on acquisition performance, it will be retained for the further assessment of the deductive model. Figure 8.5 shows the linearity and normality of the relationship, however, looking at the scatterplot, there is an evident pattern. This pattern is due to the fact that most organisations in the sample acquired companies that have almost the same size as them.

The results depict that hypothesis 1 (e) is not supported. However, the results are consistent with Bruton *et al* (1994) who also found no significant relationship between size and performance after the acquisition was completed. This analysis suggests that the bigger the relative size of the target the more difficult the integration process and synergy realisation would be. This is consistent with research conducted by Barkema and Vermeulen (1998) and Haleblian *et al* (2006) who found that companies achieve higher organisational performance when acquiring a target that is smaller.

8.2.6 The association between previous acquisition experience and performance

Uhlenbruck *et al* (2006) found that experience with acquisitions allows for synergy creation as it creates the potential for capability enhancement that leads to higher acquisition performance. Hypothesis 1(f) relates to the association between previous acquisition experience and post-acquisition organisational performance. Table 8.6 presents the findings of the analysis.

1(f) There is a positive association between acquisition experience and performance

Table 8.6: The association between previous acquisition experience and performance

Model	B	(SE)	β
(Constant)	47.529	(3.407)	
Previous acquisition experience	2.395	(.863)	.231*

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2= .053, Adjusted R^2=.046, *p<.01, D-W: 1.546

Figure 8.6: P-P plot and Scatterplot- *Previous Acquisition Experience*

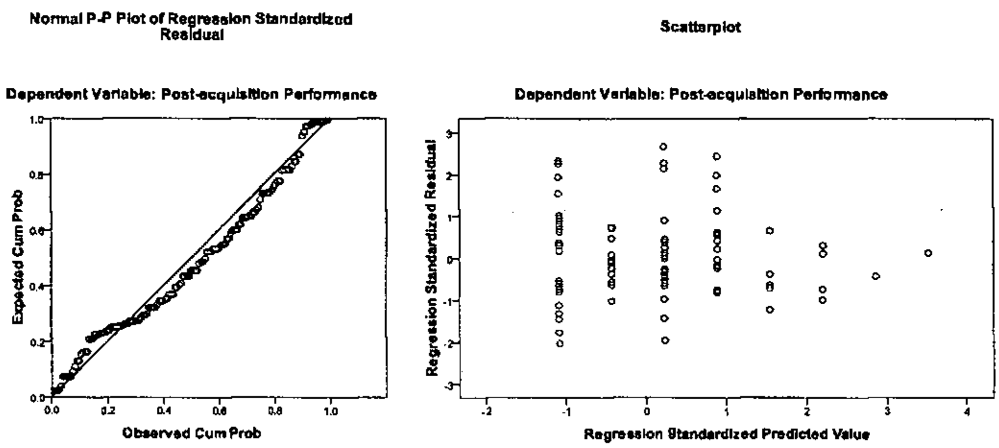


Table 8.6 demonstrates that *previous acquisition experience* is significantly associated with performance (β=.231, p<.01). Experience accounts for 5.3% of the variation in the post-acquisition organisational performance. F-ratio is 7.706, which is significant at p<.01. This demonstrates that although there is less than a 1% chance that an F-ratio would happen by chance alone, there are other factors that contribute to increased performance and that experience alone cannot predict performance. In this case R^2 is .053 and adjusted R^2 is .046, which demonstrates the cross-validity of the model. The result confirms hypothesis 1 (f) and reflects previous research on acquisition experience. Halcblian *et al* (2006) found a significant relationship between previous acquisition experience and performance.

Similarly, Zollo and Singh (2004) argued that in order to implement the integration process managers should develop organisational capabilities. The source for this development would be prior acquisition experience. Hence, the results complement the study of Zollo and Singh (2004). Experience is not the only predictor of post-acquisition organisational performance and this is also supported in the literature. Pablo (1994) and Hayward (2002) stated that although prior experience may not significantly influence performance, experience in specific acquisition management processes does.

8.2.7 The association between transfer of resources and performance

Complementary and synergistic resource exchange between the merging firms is found to have positive relationship with post-acquisition organisational performance (Uhlenbruck *et al*, 2006). Finkelstein and Halcblian (2002) also reported positive effects between the transfer of capabilities and performance. Hypothesis 1(h) assesses the relationship between previous acquisition experience and post-acquisition organisational performance. Table 8.7 presents the findings of the analysis.

1(g) There is a positive association between transfer of resources and performance

Table 8.7: The association between transfer of resources and performance

Model	B	(SE)	β
(Constant)	40.579	(3.762)	
Transfer of Resources	1.289	(.291)	.354*

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2=.13, Adjusted R^2=.12,*p<.001, D-W: 1.649

Figure 8.7: P-P plot and Scatterplot- *Transfer of Resources*

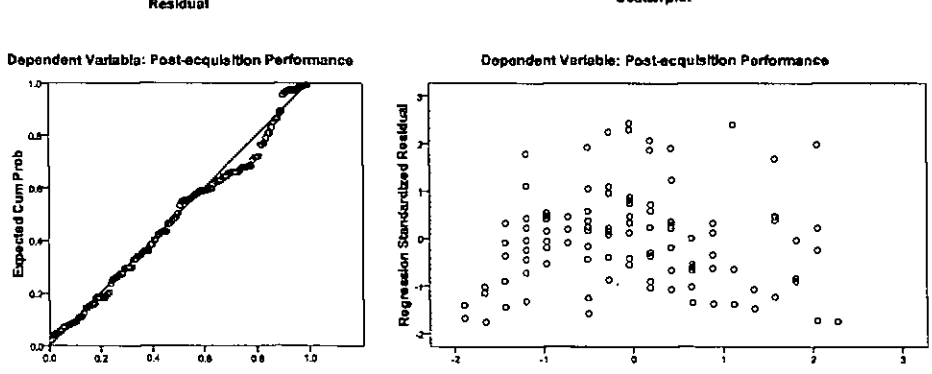


Table 8.7 demonstrates the associations between transfer of resources between the acquiring company and the target and post-acquisition organisational performance. *Transfer of Resources* has a significant positive impact on performance (β=.358, $p<.001$). Transfer of resources accounts for 12.5% of the variation in the post-acquisition organisational performance. F-ratio is 19.567, which is significant at $p<.001$. In this case R^2 is.13 and adjusted R^2 is .12, which demonstrates the cross-validity of the model. Moreover, figure 8.7 shows the linearity, normality and homoscedasticity of the relationship. The result supports hypothesis 1(g) and corroborates the assumption that sharing of resources, capabilities and knowledge lead to improved performance. Haspeslagh and Jemison (1991) argued that transfer of resources, capabilities and knowledge from the acquirer to the target will contribute to synergy realisation. Findings from Ajuha and Katila (2001) and Ranft and Lord (2002) reported a significant relationship between transfer of resources and post-acquisition organisational performance. Likewise, Brock (2005) found that synergy is contingent upon resource sharing.

8.3 The association between integration strategies and performance

Research on post-acquisition process has shown that the integration strategy enhances post-acquisition performance. The post-acquisition strategies implemented by the acquiring firms are critical for the strategic and financial success of the acquisition (Morosini *et al*, 1998). The second objective is to test the association between integration strategy (hypotheses 2a) and integration intention (hypothesis 2b) and post-acquisition organisational performance. Table 8.8 presents the findings of the analysis.

2(a) There is a positive relationship between performance and preservation strategy
2(b) There is a positive relationship between performance and symbiosis strategy
2(c) There is a negative relationship between performance and redesign strategy
2(d) There is a negative relationship between performance and absorption strategy
2(e) There is a positive relationship between the degree of integration and post-acquisition organisational performance.

Table 8.8: The association between integration strategy and integration intention and performance

Model	B	(SE)	β
(Constant)	39.839	(8.318)	
Preservation	1.228	(.920)	.165
Symbiosis	1.316	(.746)	.101*
Redesign	-1.959	(.872)	-.230*
Absorption	.535	(.977)	.078
Integration intention	1.240	(.327)	.448**

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2=.17, Adjusted R^2=.14, *p<.05, **p<.001, D-W: 1.720

Figure 8.8: P-P plot and Scatterplot- ***Integration Strategy and Integration Intention***

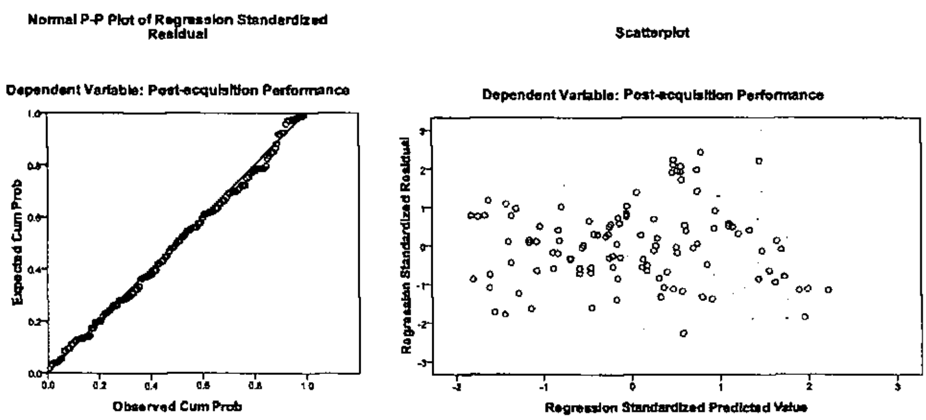


Table 8.8 demonstrates the associations between different integration strategies and performance and the integration intention and performance. Two strategies impact on post-acquisition organisational performance. *Symbiosis* has a significant positive impact (β=.101, p<.05) whereas, *redesign* has a significant negative impact (β=.-.230, p<.05). At the same time, *integration intention* has the greatest impact on performance (β=.448, p<.001). Integration accounts for 17% of the variation in the post-acquisition organisational performance. F-ratio is 12.832, which is significant at p<.001. In this case R^2 is .17 and adjusted R^2 is .14, which demonstrates the cross-validity of the model. Moreover, figure 8.8 shows the linearity, normality and homoscedasticity of the relationship.

It can be seen that integration intention has the most significant impact on post-acquisition organisational performance. This finding validates the results by Saxton and Dollinger (2004) who found that the degree of integration of the target is positively associated with acquisition performance. Moreover, symbiosis has a positive impact on performance. Symbiotic acquisitions allow for both boundary preservation and boundary permeability (Schweizer, 2005) and therefore, allow for better performance than the other strategies. Studies by Håkanson (1995) and Marks and Mirvis (2001) also show a positive relationship between symbiosis and performance. As expected redesign acquisitions have a negative effect on performance. Napier (1989) also reported negative results in this relationship. Redesign integration strategies require major changes in organisational structure, organisational practices and procedures as well as managerial implications. Redesign acquisitions are associated with high turnover among employees and executives of the acquired company, thus, the negative relationship between this integration strategy and performance.

8.4 The association between leadership and performance

The literature suggests that leadership has a varying impact on performance. The literature further suggests that leadership styles such as transformational leadership are more likely to be associated with higher post-acquisition organisational performance than transactional and passive leadership style (De Hoogh *et al*, 2004; Yammarino and Dubinsky, 1994). As this association has not been studied before in the context of acquisitions, it can only be speculated that transactional and passive leadership styles will be related to a lesser extent with acquisition performance than transformational leadership according to previous research on the impact of leadership on performance. To explore how the leadership styles have an impact on post-acquisition organisational performance, the elements of each leadership style were regressed against performance. After establishing how these elements have an effect, each leadership style was regressed to find out which is the highest predictor of acquisition performance.

8.4.1 The association between transformational leadership and performance

Transformational leadership is reported to have the highest impact on performance (Yammarino *et al*, 1997). The elements of leadership, individual consideration, intellectual stimulation, idealised behaviour and inspirational motivation, all have been found to have positive relationships with performance (Avolio and Bass, 2004). Hypothesis 3(a) examines the association between transformational leadership and post-acquisition organisational performance. Table 8.9 presents the findings of the analysis.

3(a) There is a positive relationship between post-acquisition organisational performance and the elements of transformational leadership

Table 8.9: The association between transformational leadership and performance

Model	B	(SE)	β
(Constant)	15.505	(4.631)	
Individual Consideration	1.588	(.467)	.313*
Intellectual Stimulation	2.350	(.466)	.425*
Idealised Behaviour	-.302	(.419)	-.086
Inspirational Motivation	.617	(.855)	.084

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2=.43, Adjusted R^2=.41, *p<.001, D-W: 1.923

Figure 8.9: P-P plot and Scatterplot- *Transformational Leadership*

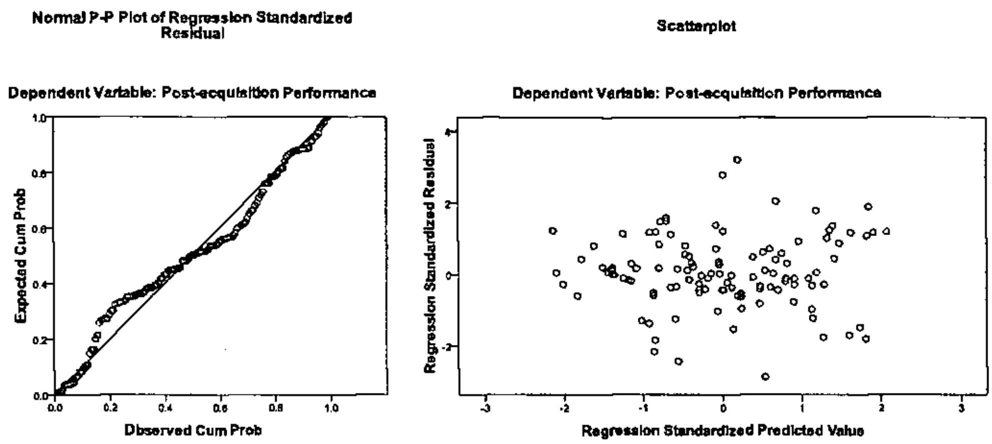


Table 8.9 demonstrates that of the four factors that constitute the transformational leadership scale only individual consideration (β=.313, p<.001) and intellectual stimulation (β=.425, p<.001) have a significant impact on post-acquisition organisational performance. At the same time *idealised behaviour* is negatively related to post-acquisition performance, whereas there is no significant prediction of the outcome variable from *inspirational motivation*. Transformational leadership accounts for 43% of the variation in the post-acquisition organisational performance. F-ratio is 25.203, which is significant at p<.001. In this case R^2 is .43 and adjusted R^2 is .41, which demonstrates the cross-validity of the model. Moreover, figure 8.9 shows the linearity, normality and homoscedasticity of the relationship. The results point out which attributes from transformational leadership are influencing subsequent acquisition performance. Overall, hypothesis 3(a) is supported as transformational leadership has a positive impact on post-acquisition organisational performance.

Table 8.9 highlights that in the context of acquisitions only individual consideration and intellectual stimulation are significantly related to acquisition performance. The regression analysis failed to find any significant associations between the other two elements of transformational leadership: idealised behaviour and inspirational motivation. It is also important to point out the negative coefficient in the relationship between idealised behaviour and performance; even though there is no statistical significance this can only be suggestive. Nonetheless, the findings of this study contradict findings by major leadership studies that assess the impact of transformational leadership on performance. Avolio and Bass (2004) found significant relationships between all elements of transformational leadership and performance as did Fuller *et al* (1996) and Yammarino and Dubinsky (1994). The results point to the conclusion that in the acquisition context leaders should demonstrate behaviours such as coaching and teaching, treating others as individuals, being innovative in solving problems, being considerate to individuals and employees. These characteristics during the post-acquisition integration process will enable the harmonisation of the integration and lead to higher organisational performance.

8.4.2 The association between transactional leadership and performance

The literature suggests that the results in the relationship between the elements of transactional leadership and performance are mixed. Some authors have reported positive relationships (Den Hartog *et al*, 1997; Yammarino and Bass, 1990), while others have found negative relationships (Koene *et al*, 2002; Waldman *et al*, 2001). Hypothesis 3(b) relates to the association between transactional leadership and post-acquisition organisational performance. Table 8.10 presents the findings of the analysis.

3(b) There is a negative relationship between post-acquisition organisational performance and the elements of transactional leadership

Table 8.10: The association between transactional leadership and performance

Model	B	(SE)	β
(Constant)	48.198	(5.974)	
Contingent Reward	2.465	(.536)	.378**
Management by Exception Active	-.888	(.331)	-.220*

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2=.15, Adjusted R^2=.14, *p<.01, **p<.001, D-W: 1.755

Figure 8.10: P-P plot and Scatterplot- *Transactional Leadership*

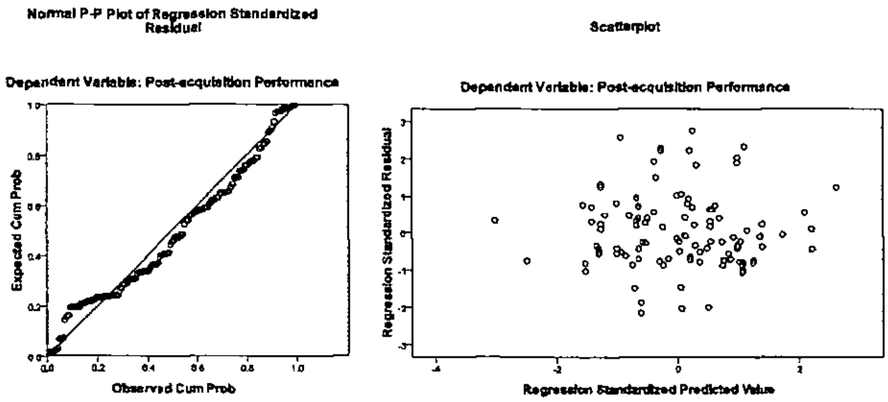


Table 8.10 demonstrates that both factors of transactional leadership are significantly associated with post-acquisition organisational performance. *Contingent reward* has a positive impact on performance (β=.348, p<.001), whereas, *management by exception (active)* has a negative association with performance (β=-.220, p<.01). Transactional leadership accounts for 15% of the variation in the post-acquisition organisational performance. F-ratio is 11.697, which is significant at p<.001. This demonstrates that there is less than a 0.1% chance that an F-ratio would happen by chance alone. In this case R^2 is .15 and adjusted R^2 is .14, which demonstrates the cross-validity of the model. Moreover, figure 8.10 shows the linearity, normality and homoscedasticity of the relationship. Hypothesis 3(b) is partially supported as only one attribute of transactional leadership is negatively associated with acquisition performance, whereas the other one, is positively associated.

These results show that contingent reward can predict performance in the context of acquisitions. This finding verifies previous studies that have reported a positive relationship between contingent reward and performance (see Eisenbach *et al*, 2005). At the same time, this research found a significant negative association between management by exception (active) and performance confirming previous studies (see Bass *et al*, 2003). Contingent reward is significantly related to post-acquisition organisational performance and this can be attributed to the unique nature of acquisitions. The post-acquisition integration process is a complex and dynamic phenomenon. It requires transformational leadership (Haspeslagh and Jemison, 1991; Stahl *et al*, 2005) but as the findings demonstrate it also requires some degree of rigid and formal control to achieve the intended benefits. It can also be argued that this positive relationship between contingent reward and acquisition performance is contingent upon the integration intention of the acquiring firm (see section 8.6.4).

8.4.3 The association between passive leadership and performance

Passive leadership has been found to have a negative effect on performance. Bass *et al* (2003) found that being a passive leader waiting for problems to arise and then correcting them was counterproductive in terms of performance. However, it is necessary to study the effect of passive leadership in the context of acquisitions in order to explore if the results on this relationship can be validated in this context as well. Hypothesis 3(c) concerns the association between passive leadership and post-acquisition organisational performance. Table 8.11 presents the findings of the analysis.

3(c) There is a negative relationship between post-acquisition organisational performance and the elements of passive leadership

Table 8.11: The association between passive leadership and performance

Model	B	(SE)	β
(Constant)	115.636	(9.699)	
Reactive Leadership	-2.186	(.357)	-.477*
Laissez-faire Leadership	-.441	(.469)	-.073

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2=.26, Adjusted R^2=.25, *p<.001, D-W: 1.594

Figure 8.11: P-P plot and Scatterplot- *Passive Leadership*

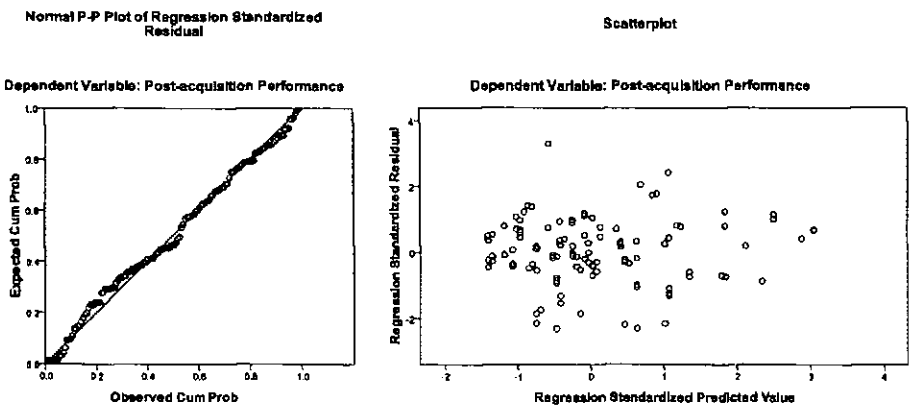


Table 8.11 demonstrates that both factors of passive leadership are negatively associated with post-acquisition organisational performance. *Reactive leadership* has a

significant negative impact on performance (β=-.477, p<.001). There is no significant relationship between laissez-faire leadership and performance; however, the negative coefficient is suggestive of a negative effect of laissez-faire leadership and post-acquisition organisational performance. Passive leadership accounts for 26% of the variation in the post-acquisition organisational performance. F-ratio is 23.278, which is significant at p<.001. In this case R^2 is .26 and adjusted R^2 is .25, which demonstrates the cross-validity of the model. Indeed, the results reinforce the negative relationship between passive leadership and post-acquisition organisational performance. This indicated that hypothesis 3(c) is supported. The findings attest to Bass's (1990) conclusion that passive leadership does not contribute at all to performance. Leaders that employ this leadership style are inactive (Den Hartog *et al,* 1997), inattentive and indifferent. Passive leadership in the acquisition context will have an adverse effect on the integration process and subsequently, in the post-acquisition organisational performance.

8.4.4 The effect of leadership styles on post-acquisition organisational performance

Tables 8.9-8.11 depict the results of the regression analysis of each leadership style's elements and their association with performance. It is also important to see how these leadership styles factors simultaneously regress against performance in order to reach conclusions on which leadership style is significantly associated with post-acquisition organisational performance. Table 8.12 shows the results of the multiple regression analysis.

Table 8.12: The association between leadership and performance

Model	B	(SE)	β
(Constant)	(60.075)	11.214	
Individual Consideration	1.377	.489	.271***
Intellectual Stimulation	2.028	.452	.367**
Idealised Behaviour	-.142	.402	-.040
Inspirational Motivation	.613	.860	.084
Contingent Reward	-.599	.615	-.092
Management by Exception	.142	.296	.035
Reactive Leadership	-1.108	.343	-.242**
Laissez-faire Leadership	-.729	.399	-.121*

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, R^2=.50, Adjusted R^2=.48,*p<.05, **p<.01, ***p<.001, D-W: 1.698

Figure 8.12: P-P plot and Scatterplot- *Leadership Factors*

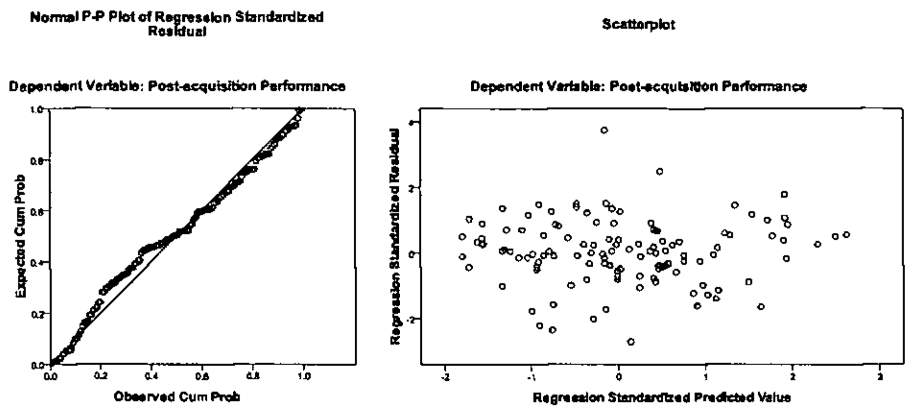


Table 8.12 demonstrates the relationships between all the leadership styles and post-acquisition organisational performance. The results are similar to the ones depicted in earlier tables. *Individual Consideration* (β=.271, p<.001) and *Intellectual Stimulation* (β=.367, p<.01) are the two elements of transformational leadership that are positively associated with enhancing post-acquisition organisational performance. On the other hand, *Reactive Leadership* (β=-.242, p<.01) and *Laissez-faire Leadership* (β=-.121, p<.05) are negatively associated with post-acquisition performance. There is no significant relationship between transactional leadership elements and post-acquisition performance. Overall, leadership accounts for 50% of the variation in the post-acquisition organisational performance, when other factors are not included. F-ratio is 16.458 which is significant at p<.001. In this case R^2 is.50 and adjusted R^2 is .48 which demonstrates the cross-validity of the model. Moreover, figure 8.12 shows the linearity, normality and homoscedasticity of the relationship.

8.5 The association between relatedness, transformational leadership and post-acquisition organisational performance

The ordinary least squares regression, presented in table 8.12, revealed that transformational leadership has a significant positive relationship with performance. Therefore, it is the only leadership style that, if followed can enhance post-acquisition organisational performance and contribute to the acquisition's success. However, the literature suggests that the degree of relatedness can moderate this relationship (Larsson and Lubatkin, 2001; Teerikangas and Very, 2006). This implies that the success of a transformational leader in effectively managing the post-acquisition integration process is contingent upon the degree of fit between the acquirer and the target organisation. If, for instance, these two companies have similarities in organisational processes, strategic and cultural orientation, then the organisations will be integrated smoothly and the role of a transformational leader will be more evident. Therefore, this relationship among the three variables should be studied.

Table 8.13 presents the results of the moderated regression analysis. In the first step, the independent variable – leadership – and the moderator variables – organisational fit, strategic fit and culture fit – are entered and regressed against post-acquisition organisational performance. In the second step, post-acquisition organisational performance is regressed on the independent variable, the moderators and their interactions.

Relatedness will moderate the relationship between transformational leadership and post-acquisition organisational performance

Table 8.13: Moderated Regression Analysis

Variables	Step 1			Step 2		
	B	(SE)	β	B	(SE)	β
Transformational Leadership	.700	(.095)	.470***	.901	(.498)	.605
Organisational Fit	.723	(.165)	.296***	2.088	(.935)	.856*
Strategic Fit	.257	(.233)	.072	3.913	(.951)	1.099***
Culture Fit	1.375	(.474)	.205**	-6.133	(2.542)	-.916*
Transformational x Organisational Fit				-.030	(.020)	-.805
Transformational x Strategic Fit				-.078	(.020)	-1.337***
Transformational x Culture Fit				.166	(.056)	1.652**
(Constant)	(-7.172)			(-18.096)		
F Statistic	.37.099***			28.080***		
R^2	.525			.600		
ΔR^2				.075		
Adjusted R^2	.511			.579		

Note: N=139, *p<.05, **p<.01, **p<.001

Table 8.13 reports the results of the moderated multiple regression analysis. In step 1, transformational leadership, as the independent variable and organisational, strategic and culture fit as the moderators were entered in the regression equation. The results indicate that *transformational leadership* has a significant effect on post-acquisition organisational performance (β=.470, $p<.001$. At the same, *organisational fit* (β=.296, $p<.001$) and *culture fit* (β=.205, $p<.01$) also have a positive significant relationship with post-acquisition organisational performance. However, *strategic fit* does not appear to have a significant relationship with post-acquisition organisational performance in this regression equation. However, the positive coefficient can only be suggestive of a positive relationship between strategic fit and post-acquisition performance. In this step, R^2 is .525 and adjusted R^2 is .511 demonstrating the cross-validity of the model. F-statistic is significant at 37.099 ($p<.001$, df= 4, 134).

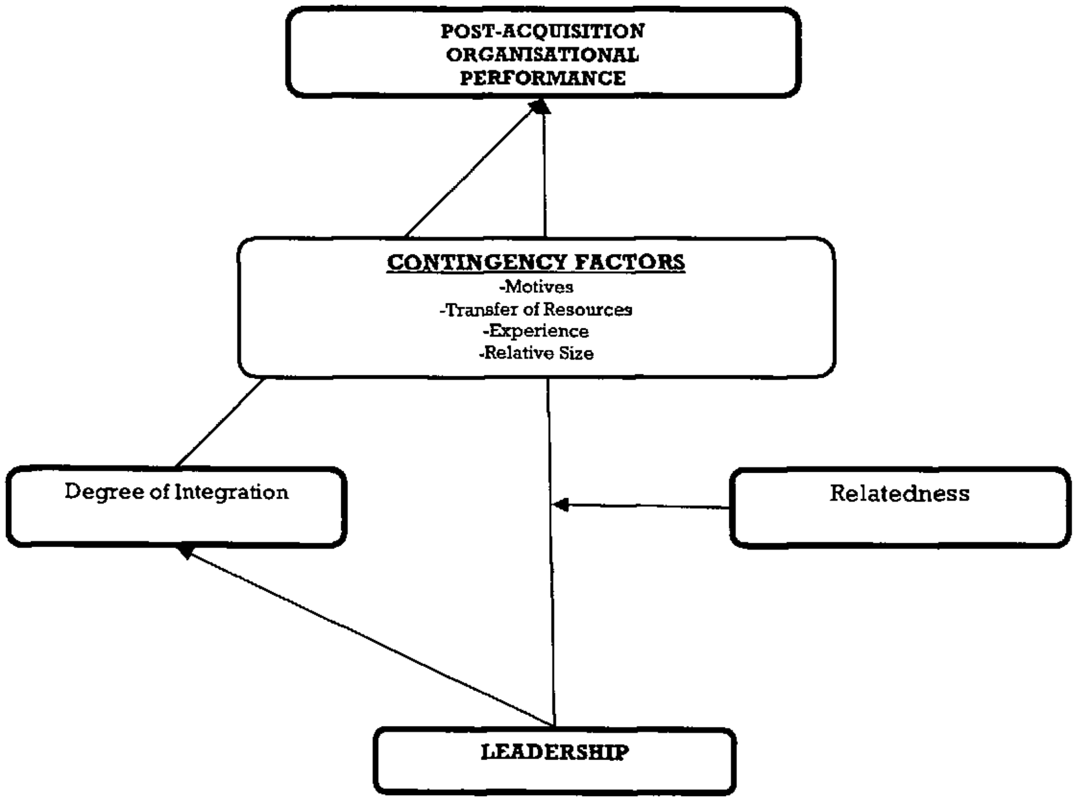
In the second step, post-acquisition organisational performance was regressed against the independent variable, the moderators and their interactions. At this step, *transformational leadership* at slightly above the 5% significant level (β=.605, $p<.1$) can be argued to have a significant impact on performance. All factors of relatedness have a significant effect on performance, *organisational fit* (β=.856, $p<.05$) and *strategic fit* (β=1.099, $p<.001$) have a positive relationship whereas, *culture fit* (β=-.916, $p<.05$) has a negative effect on performance. More important, however, in this step are the interaction effects between the independent and the moderator variables. As it can be seen from table 9.13, the interaction between transformational leadership and strategic fit (β=-1.337, $p<.001$) and the interaction between transformational leadership and culture fit (β=1.652, $p<.01$) are significant indicating that there is a moderation effect in the transformational leadership – post-acquisition performance relationship. This is also indicated by the change in R^2 from step 1 to step 2. There was a considerable change of.075 showing that there exists a moderation effect. R^2 for this step is .600 and adjusted R^2 is .579 indicating the cross-validity of the model. It is also important to mention that these interaction effects in this model account for 60% of the variance in post-acquisition organisational performance. F-statistic is significant at 28.080 ($p<.001$, df= 7, 131) indicating that this shrinkage is also accountable for the persistence of the interaction effects.

The results support hypothesis 4 and suggest that in analysing the extent to which transformational leadership can have a positive impact on enhancing post-acquisition organisational performance, one should take into account the level of strategic fit and culture fit. Whilst there is a negative significant interaction between transformational leadership and strategic fit in measuring post-acquisition performance, it implies that a high degree of strategic fit between the acquirer and the target can actually negatively influence the transformational leadership – post-acquisition performance relationship. This means that the presence of strategic similarities may inhibit the emergence of a transformational leader. In this case, transformational leadership will be suppressed. However, it could still be argued that transformational leadership is necessary even when there is a high degree of strategic fit, but its role in integrating the two organisations will be more difficult in this case. On the other hand, culture fit provides a positive moderation as the interaction effect between transformational leadership and culture fit is positive. This means, that the extent to which transformational leadership will be evident in acquisitions is contingent upon cultural similarities between the two organisations.

8.6 The Deductive Model

The previous section tested the relationship of each variable separately with post-acquisition organisational performance to establish whether these variables can be predictors of performance for the whole sample. This section presents the results of the hierarchical regression analysis as well as the backward deletion regression analysis to establish the predictors of performance in different settings as well as to investigate the role of leadership in each of these settings and how leadership affects the post-acquisition organisational performance.

Figure 8.13: The deductive model



8.6.1 Hierarchical analysis of the full sample

Table 8.14 demonstrates the results of the hierarchical analysis of the full sample.

Table 8.14: Results of the hierarchical analysis of the full sample

Variables	Step 1		Step 2		Step 3		Step 4	
	B (SE)	β	B (SE)	β	B (SE)	β	B (SE)	β
Size	1.779 (1.380)	.106	-.067 (1.370)	-.004	-1.079 (1.216)	-.064	-.872 (.932)	-.052
Experience	2.490 (.819)	.240**	2.127 (.772)	.205**	1.817 (.693)	.175**	-.053 (.572)	-.005
Transfer of Resources	.831 (.311)	.228**	.420 (.304)	.115	.602 (.270)	.165*	.731 (.205)	.201***
Degree of Integration	.625 (.224)	.226**	.509 (.213)	.184*	.111 (.205)	.040	.023 (.153)	.008
Expand product lines and enter new business			.495 (.179)	.222**	.581 (.161)	.261***	.319 (.126)	.143*
Deal with interdependencies in a firm's environment			.568 (.291)	.150*	-.016 (.283)	-.004	.014 (.216)	.004
Achieve economies of scale and scope			.648 (.258)	.192*	.335 (.244)	.100	.371 (.183)	.110*
Similar managerial approaches					.270 (.190)	.111	.428 (.145)	.176**
Similar strategic orientation					.467 (.278)	.131	.529 (.224)	.149*
Similar innovation and risk-taking strategies					2.405 (.526)	.359***	1.512 (.406)	.226***
Transformational Leadership							.453 (.096)	.292***
Transactional Leadership							-.228 (.189)	-.068
Passive Leadership							-1.197 (.163)	-.374***
(Constant)	(23.650)		(5.585)		(-7.409)		(39.537)	
F Statistic	9.363***		9.261***		12.606***		25.663***	
R^2	.218		.331		.557		.744	
ΔR^2			.113		.226		.188	
Adjusted R^2	.195		.295		.507		.704	

Note: N=139, B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001

Table 8.14 reports the results of the hierarchical analysis in the full sample. In step 1 control variables of *relative size, previous acquisition experience, transfer of resources and the degree of integration* were entered. There is a positive significant relationship between *previous acquisition experience* (β=.240, $p<.01$), *transfer of resources* (β=.228, $p<.01$) and the *degree of integration* (β=.226, $p<.01$) and performance, where as there was no significant relationship between *relative size* and performance. F-statistic is significant at 9.363 ($p<.01$, df= 4, 134). R^2 is .218 and adjusted R^2 is .195. In step 2, the motives of the acquisition were added in the hierarchical regression. This resulted in a considerable increase in the R^2. The R^2 for step 2 is .331, improving the fit of the model by .113. In this step, *expanding product lines and entering new business* is significantly associated with performance (β=.205, $p<.01$), *dealing with interdependencies in a firm's environment* (β=.150, $p<.01$) and *achieving economies of scale and scope* (β=.192, $p<.01$) are also, significantly associated with post-acquisition organisational performance. F-statistic is significant at 9.261 ($p<.001$, df= 3, 131). R^2 as mentioned earlier is .331 and the adjusted R^2 is .295 showing the cross-validity of the model. In this step *experience* (β=.205, $p<.001$) and *degree of integration* (β=.184, $p<.01$) are still significantly associated with performance, whereas *transfer of resources* shows a no significant relationship. In step 3, the factors of relatedness are entered. There was an increase in the value of R^2 by .226. In this step *similar innovation and risk-taking strategies* is the factor most significantly associated with performance (β=.359, $p<.001$), whereas there is no significant relationships between the other factors of relatedness. Control variables such as *experience* (β=165, $p<.01$) and *transfer of resources* (β=.165, $p<.05$) are also associated with post-acquisition organisational performance as is *expanding product lines and enter new business* (β=.261, $p<.001$). F-statistic is significant at 12.606 ($p<.001$, df= 3, 128). R^2 is .557 and adjusted R^2 is .507 demonstrating the cross-validity of the model.

Finally, in step 4, leadership as the main predictor of performance, was entered. This resulted in another increase in the R^2. The R^2 for this step, which includes all predictors of post-acquisition organisational performance, is .744, meaning that all these factors account for 74% of the variation in post-acquisition organisational performance. *Transformational leadership* was significantly associated with performance (β=.292, $p<.001$), whereas, *passive leadership* was negatively associated (β=-.374, $p<.001$). F-statistic for this step is significant at 25.663 ($p<.001$, df= 3, 125). R^2 is .744 and adjusted R^2 is .704. In this step, *transfer of resources* (β=.201, $p<.001$), *expanding product lines and entering new business*

(β=.143, p<.05), *achieving economies of scale and scope* (β=.110, p<.05), *similar managerial approaches* (β= .176, p<.01), *similar strategic orientation* (β=.149, p<.05) and *similar innovation and risk-taking strategies* (β=.292, p<.001) have a positive relationship with performance.

However, as each acquisition is a unique phenomenon, no further analysis of the overall sample will be conducted. Rather, the sample will be split up in different groups, according to the industry, service or manufacturing, according to the type of acquisition, domestic or cross-border and according to the degree of integration. This is an appropriate strategy as different levels of leadership will emerge in different settings and it is imperative to study the leadership phenomenon in different settings so as to overcome the limitations of previous studies as mentioned in the literature review. Moreover, this technique will investigate how the categories mentioned change the effects of independent variables on post-acquisition organisational performance.

One of the aims of this study is to investigate the influence of leadership on the post-acquisition organisational in different acquisition contexts. To meet this aim, three hypotheses were developed. The following sections report the investigation of the association between leadership and post-acquisition organisational performance in different settings.

8.6.2 The effect of leadership in domestic and cross-border acquisitions

Hypothesis 5 measures the effect of leadership on the post-acquisition organisational performance in both domestic and cross-border acquisitions. Tables 8.15 and 8.17 report on the results of the hierarchical regression analysis and test the hypothesis.

5(a) Transformational leadership will have a stronger relationship with post-acquisition organisational performance in cross-border acquisitions than in domestic acquisitions
5(b) Transactional leadership will have a negative relationship with post-acquisition organisational performance in both domestic and cross-border acquisitions
5(c) Passive leadership will have a negative relationship with post-acquisition organisational performance in both domestic and cross-border acquisitions

8.6.2.1 Domestic Acquisitions

Table 8.15 presents the results of the hierarchical regression analysis and the relationship between leadership and post-acquisition performance in domestic acquisitions.

Table 8.15: Hierarchical Regression - *Domestic Acquisitions*

Variables	Step 1		Step 2		Step 3		Step 4	
	B (SE)	**β**	**B (SE)**	**β**	**B (SE)**	**β**	**B (SE)**	**β**
Size	1.864 (1.851)	.124	-.097 (1.934)	-.006	-1.074 (1.529)	-.072	-1.192 (1.233)	-.080
Experience	1.315 (1.197)	.134	1.541 (1.169)	.157	1.833 (.919)	.187*	-.124 (.907)	-.013
Transfer of Resources	.197 (4.38)	.055	-.065 (.439)	-.018	.124 (.375)	.035	.605 (.317)	.170*
Degree of Integration	.042 (.340)	.015	.086 (.332)	.031	-.221 (.272)	-.079	-.275 (.221)	-.099
Expand product lines and enter new business			.539 (.244)	.266*	.554 (.204)	.274**	.148 (.189)	.073
Deal with interdependencies in a firm's environment			.527 (.408)	.149	-.204 (.370)	-.058	-.103 (.316)	-.029
Achieve economics of scale and scope			.473 (.435)	.129	-.047 (.376)	-.013	.128 (.309)	.035
Similar managerial approaches					.466 (.262)	.193	.516 (.217)	.214*
Similar strategic orientation					.569 (.374)	.168	.724 (.343)	.214*
Similar innovation and risk-taking strategies					3.024 (.616)	.514***	1.540 (.575)	.262**
Transformational Leadership							.350 (.149)	.254*
Transactional Leadership							-.369 (.286)	-.119
Passive Leadership							-1.091 (.237)	-.399***
(Constant)	(43.872)		(22.322)		(2.452)		(53.881)	
F Statistic	.674		1.540		6.628***		11.053***	
R^2	.034		.129		.548		.715	
ΔR^2			.094		.419		.168	
Adjusted R^2	-.017		.045		.452		.638	
F-Change Sig.			2.638		8.728***		12.343***	
Durbin-Watson	1.692							

Note: N=81, B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001

Figure 8.14: P-P plot and Scatterplot- *Domestic Acquisitions*

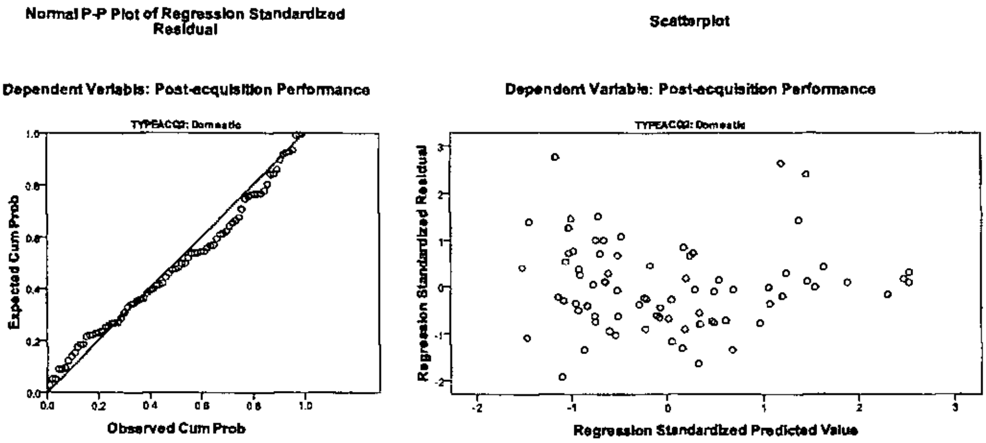


Table 8.15 reports the results of the hierarchical analysis in domestic acquisitions. In step 1 control variables of *relative size, experience, transfer of resources and degree of integration* were entered. There are no significant relationships between the control variables and post-acquisition organisational performance. F-statistic is not significant at .674 (df= 4, 76). R^2 is .034 and adjusted R^2 is -.017 demonstrating that these variables do not account for the performance in domestic acquisitions. In step 2, the motives of the acquisition were added in the hierarchical regression. This resulted in a considerable increase in the R^2. The R^2 for step 2 is .129, improving the fit of the model by .094. In this step, *expanding product lines and entering new business* is significantly associated with performance (β=.266, p<.05), whereas there are no associations between *dealing with interdependencies in a firm's environment* and *achieving economies of scale and scope* with post-acquisition organisational performance. F-statistic is not significant at 1.540 (df= 3, 73). R^2 as mentioned earlier is .129 and the adjusted R^2 is .045. This demonstrates that the variables entered so far are not predictors of acquisition performance. In step 3, the factors of relatedness were entered. There was an increase in the value of R^2 by .419. In this step, *similar innovation and risk-taking strategies* is the factor that is most significantly associated with performance (β=.514, p<.001). At the same time, *experience* (β=.187, p<.05) and *expanding product lines and entering new business* (β=.274, p<.01) can predict performance when the other conditions have been met. F-statistic is significant at 6.628 (p<.001, df= 3, 70). R^2 is .548 and adjusted R^2 is .452 demonstrating the cross-validity of the model. Moreover, the change of the F-statistic in this step is significant demonstrating that the inclusion of these variables is significant and therefore, the R^2 change is also

significant. This means that factors of relatedness enhance post-acquisition acquisition performance and contribute to the understanding of the variance of the dependent variable.

Finally, in step 4, leadership as the main predictor of performance, was entered. This resulted in another increase in the R^2. The R^2 for this step, which includes all predictors of post-acquisition organisational performance, is .715, meaning that all these factors account for the 71.5% of the variation in post-acquisition organisational performance in domestic acquisitions. There is no significant association between *transactional leadership* and acquisition performance. *Transformational leadership* is significantly related to performance (β=.254, p<.05) but only to a small extent. *Passive leadership* was negatively significantly associated with performance (β=-.402, p<.001). F-statistic for this step is significant at 11.053 (p<.001, df= 3, 67). R^2 is .715 and adjusted R^2 is .638. In this step, *transfer of resources* (β=.170, p<.05), *similar managerial approaches* (β=.214, p<.05), *similar strategic orientation* (β=.214, p<.05) and *similar innovation and risk-taking strategies* (β=.262, p<.01) are all positively related to performance. F-statistic change is also significant as well, implying that the leadership elements are significantly influencing the variance in post-acquisition organisational performance. Moreover, figure 8.14 shows the linearity, normality and homoscedasticity of the relationship.

It is observed that the significance of certain variables change in different steps of the hierarchical regression analysis. In step 3 it is observed that when the factors of relatedness are entered, previous acquisition experience becomes significant. This can be explained by the fact that identifying the right target organisation through the assessment of the economies of fitness requires some previous acquisition experience in order to achieve the expected synergies. This is consistent with the theory of previous acquisition experience. Shaver (2006) argued that previous acquisition experience leads to better acquisition results, as they are also demonstrated in this regression analysis, because leaders are familiar with executing and implementing this strategic action. However, in Step 4, when the leadership variables were entered, experience lost its significance. This can be attributed to the importance of leadership in the acquisition context. Leaders have the right capabilities and competencies to motivate and inspire employees to reach a common goal as well as the right personal characteristics, such as experience to execute this strategy (Nemanich and Keller, 2007). In step 4, transfer of resources and elements of relatedness are becoming significant, whereas, expand product lines became insignificant. Since there is no theory on the relationship between the motives and transformational leadership, this change can only be attributed with statistical terms. This variable became insignificant because the new variables which were added, factors of relatedness and leadership, are strong enough to explain the dependent variable. The variables that were significant in previous steps become insignificant due to the introduction of stronger variables that explain the variance of post-acquisition organisational performance, the dependent variable.

To fully understand the predictors of performance in domestic acquisitions backward deletion regression was employed. All the variables were entered in this regression. The results from this analysis are presented in table 8.16.

Table 8.16: Backward deletion regression in domestic acquisitions

Variables	B	(SE)	β
Transfer of Resources	.538	.257	.152*
Similar innovation and risk-taking strategies	1.466	.487	.249**
Similar autonomy and decision-making approaches	.666	.314	.171*
Intellectual Stimulation	1.758	.500	.300***
Reactive Leadership	-1.088	.335	-.284**
Laissez-faire Leadership	-.738	.441	-.130*
(Constant)	**F-Statistic**		R^2
(39.446)	22.528***		.684

Note: B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001, Adjusted R^2= .653, D-W: 1.516

The results from table 8.16 demonstrate that for a domestic acquisition to be successful, transfer of resources, capabilities and knowledge should take place. Moreover, a degree of culture fit in terms of innovation and risk-taking strategies as well as similar autonomy and decision-making approaches should exist between the two organisations. Transformational leaders should exhibit intellectual stimulation to their followers so as to enhance post-acquisition organisational performance. Passive leadership, in either forms reactive leadership or laissez-faire leadership, is negatively associated with performance and is a leadership style that should be avoided. These factors account for 68% of the variation in performance of domestic acquisitions. The sample is large enough to suggest that in domestic acquisitions, if these conditions are met, then the acquisition will create synergy and realise the expected value.

8.6.2.2 Cross-border acquisitions

Table 8.17 presents the results of the hierarchical regression analysis and the relationship between leadership and post-acquisition performance in cross-border acquisitions.

Table 8.17: Hierarchical Regression- *Cross-Border Acquisitions*

Variables	Step 1		Step 2		Step 3		Step 4	
	B (SE)	**β**	**B (SE)**	**β**	**B (SE)**	**β**	**B (SE)**	**β**
Size	2.626 (1.846)	.132	-1.671 (1.749)	.084	1.536 (1.827)	.077	.411 (1.189)	.021
Experience	1.711 (1.104)	.149	1.047 (1.008)	.091	1.224 (1.146)	.106	-1.014 (.662)	-.088
Transfer of Resources	1.474 (.387)	.398***	1.089 (.363)	.294**	1.316 (.404)	.355***	.580 (.240)	.156**
Degree of Integration	1.026 (.278)	.380***	1.057 (.269)	.391***	1.061 (.366)	.393**	.050 (.245)	.019
Expand product lines and enter new business			.029 (.265)	.012	.140 (.280)	.056	.949 (.188)	.380***
Deal with interdependencies in a firm's environment			.451 (.390)	.109	.088 (.474)	.021	-1.065 (.275)	-.257***
Achieve economies of scale and scope			.951 (.278)	.304***	.803 (.313)	.256*	.252 (.176)	.080
Similar managerial approaches					-.102 (.320)	-.041	.304 (.181)	.122
Similar strategic orientation					-.406 (.486)	-.109	-.104 (.296)	-.028
Similar innovation and risk-taking strategies					1.768 (.987)	.222	4.321 (.637)	.543***
Transformational Leadership							.864 (.100)	.516***
Transactional Leadership							.041 (.222)	.011
Passive Leadership							-2.035 (.292)	-.503***
(Constant)	(9.480)		(-3.273)		(-9.140)		(37.428)	
F Statistic	18.048***		15.457***		11.299***		39.436***	
R^2	.577		.684		.729		.929	
ΔR^2			.107		.045		.199	
Adjusted R^2	.545		.640		.641		.898	
F-Change Sig.			5.658**		1.028		37.275***	
Durbin-Watson	**1.955**							

Note: N=58, B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001

Figure 8.15: P-P plot and Scatterplot- *Cross-Border Acquisition*

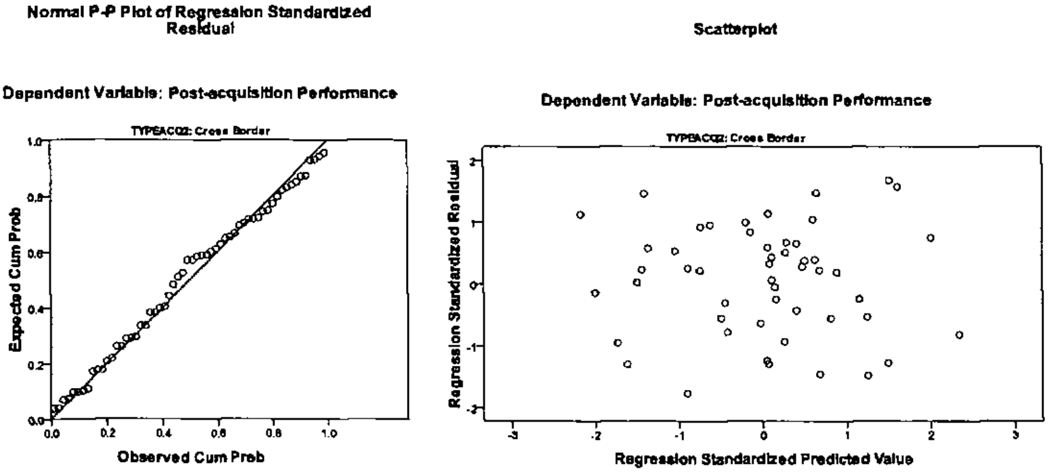


Table 8.17 reports the results of the hierarchical analysis in cross-border acquisitions. In step I control variables of *relative size, experience, transfer of resources and degree of integration* were entered. There is a significant relationship between *transfer of resources* (β=.398, p<.001), *degree of integration* (β=.380, p<.001) and post-acquisition performance. There are no significant relationships between *size, experience* and post-acquisition organisational performance. F-statistic is highly significant at 18.048 (df= 4, 53). R^2 is .577 and adjusted R^2 is .545. In step 2, the motives of the acquisition were added in the hierarchical regression. This resulted in a considerable increase in the R^2. The R^2 for step 2 is .684, improving the fit of the model by .107. In this step, *achieving economies of scale and scope* is significantly associated with performance (β=.304, p<.001), whereas there are no associations between *expanding product lines and entering new business* and *dealing with interdependencies in a firm's environment* with post-acquisition organisational performance. F-statistic is significant at 15.457 (df= 7, 50). R^2 as mentioned earlier is .684 and the adjusted R^2 is .640. Moreover, the change of the F-statistic in this step is significant demonstrating that the inclusion of these variables is significant and therefore, the R^2 change is also significant. In step 3, the factors of relatedness were entered. There was an increase in the value of R^2 by .045. In this step, there is no significant association between factors of relatedness and post-acquisition organisational level. F-statistic is significant at 11.299 (p<.001, df= 10, 47). At the same time, *transfer of resources* (β=.355, p<.001) and *degree of integration* (β=.393, p<.01) are significantly associated with post-acquisition organisational performance. R^2 is .729 and adjusted R^2 is .641. However, F-statistic in this

step is not significant, indicating that the increase in R^2 was just a result of including more variables, without these being significant.

Finally, in step 4, leadership as the main predictor of performance, was entered. This resulted in another increase in the R^2. The R^2 for this step, which includes all predictors of post-acquisition organisational performance, is .929, meaning that all these factors account for the 93% of the variation in post-acquisition organisational performance. There was a significant positive relationship between *transformational leadership* (β=.516, p<.001) and performance. *Passive leadership* was negatively significantly associated with performance (β=-.503, p<.001) and the positive sign of transactional leadership can only indicate a suggestive positive relationship between *transactional leadership* and performance. F-statistic for this step is significant at 39.436 (p<.001, df= 13, 44). R^2 is .929 and adjusted R^2 is .898. In this step, *transfer of resources* (β=.156, p<.01), *expanding product lines and enter new business* (β=.380, p<.001) and *similar innovation and risk-taking strategies* (β=.543, p<.001) are all positively related to performance, whereas *dealing with interdependencies in a firm's environment* (β=-.257, p<.01) is negatively associated with performance. It can also be argued that the degree of integration has a significant relationship with performance. However, when the leadership factors were entered, they acted as suppressive variables to the significance of the degree of integration in cross-border acquisitions. Nonetheless, the importance of the degree of integration in cross-border acquisitions should be taken into account. F-statistic change is also significant as well, implying that the leadership elements are significantly influencing the variance in post-acquisition organisational performance. Moreover, figure 8.15 shows the linearity, normality and homoscedasticity of the relationship.

It can be observed that there are changes in the significance levels in step 4. The degree of integration as well as the motive: achieve economics of scale and scope became insignificant. This is attributed to the introduction of the stronger variable of leadership. As mentioned earlier there are no previous studies investigating the relationship between leadership and acquisition motives and it can only be speculated that motives are not significant predictors of performance when leadership variables are introduced. As far as the degree of integration is concerned, the results are reliable with the theory. Morosini *et al* (1998) mentioned that in cross-border acquisitions transformational leadership plays a critical role in ensuring post-acquisition organisational performance, regardless the degree of integration that the companies will implement. This is also evident from the results of the above analysis where the degree of integration was significant in the first three steps but lost its significant in step 4 where leadership was entered in the regression equation. At the same time, the motive: deal with interdependencies in a firm's environment, became significant in step 4 and also gained a negative direction. This implies that if the motive is followed in acquisitions then it would negatively influence the subsequent performance. However, this negative relationship is only evident when the leadership variables were entered. This can be explained statistically as the introduction of more variables reduces the residuals because more information is added to explain the dependent variable. This means that leadership variables are stronger and explain better post-acquisition organisational performance in cross-border acquisitions.

To understand the predictors of performance in cross-border acquisitions backward deletion regression was employed. The results from this analysis are presented in table 8.18.

Table 8.18: Backward deletion regression in cross-border acquisitions

Variables	B	(SE)	β
Size	2.807	(.753)	.141***
Transfer of Resources	.639	(.202)	.173**
Degree of Integration	.793	(.116)	.294***
Expand product lines and enter new business	.421	(.132)	.169**
Deal with interdependencies in a firm's environment	-.548	(.207)	-.132**
Similar evaluation and reward criteria	1.406	(.253)	.225***
Similar innovation and risk-taking strategies	2.534	(.433)	.318***
Similar autonomy and decision-making approaches	-1.140	(.238)	-.223***
Intellectual Stimulation	2.810	(.263)	.548***
Idealised Behaviour	.862	(.296)	.186**
Inspirational Motivation	-1.199	(.554)	-.142*
Management-by-Exception	-.537	(.187)	-.117**
Reactive Leadership	-1.669	(.310)	-.272***
(Constant)	**F-Statistic**		**R^2**
(12.592)	76.524***		.958

Note: B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001, Adjusted R^2=.945, D-W: 2.046

The success factors of a cross-border acquisitions are size, transfer of resources, the degree of integration, the motives of the acquisition as well as organisational and culture fit. Leaders should demonstrate intellectual stimulation and idealised behaviour in order to achieve the harmonisation of the integration process and enhance the performance of the acquisition. Inspirational motivation, management by exception and reactive leadership are leadership styles that should be avoided in acquisitions as is similar autonomy and decision-making approaches between the acquirer and the target organisation. These factors account for 96% of the variance of acquisition performance implying that once these conditions have been met in cross-border acquisition, then the likelihood of acquisition success is extremely high.

Tables 8.15 and 8.17 provide the results for the support or rejection of the hypothesis. It is demonstrated that there is support for hypothesis 5(a) as transformational leadership has a stronger impact on cross-border acquisitions and for hypothesis 5(c) as passive leadership is negatively associated with post-acquisition organisational performance in both types of acquisitions. However, there is no support for hypothesis 5(b) as transactional leadership is not significantly associated with acquisition performance in any of the two cases. Section 9.3 provides an explanation of the theoretical implications of hypothesis 5.

8.6.3 The effect of leadership in acquisitions in the service and manufacturing industries

Hypothesis 6 measures the effect of transformational leadership on the post-acquisition organisational performance in acquisitions in the service and manufacturing industries. Tables 8.19 and 8.21 report on the results of the hierarchical regression analysis and test the hypothesis.

6(a) Transformational leadership will have a stronger relationship with post-acquisition organisational performance in acquisitions in service firms than in acquisitions in manufacturing firms
6(b) Transactional leadership will have a negative relationship with post-acquisition organisational performance in acquisitions in both manufacturing and service firms
6(c) Passive leadership will have a negative relationship with post-acquisition organisational performance in acquisitions in both manufacturing and service firms

This hypothesis refers to the differences between a capital intensive industry and a human intensive industry. It is based on the premise that the alignment of manufacturing processes and systems and their integration with the target's systems and practices will be smoother than those in the service firms as it is easier to integrate manufacturing capabilities

(Ruckman, 2007; Schoenberg, 2004). Therefore, leadership will have a stronger presence in service firms where the integration complexities are more evident.

8.6.3.1 Acquisitions in the service industries

Table 8.19 presents the results of the hierarchical regression analysis and the relationship between leadership and post-acquisition performance in the service industries.

Table 8.19: Hierarchical Regression- *Service Industries*

Variables	Step 1		Step 2		Step 3		Step 4	
	B (SE)	**β**	**B (SE)**	**β**	**B (SE)**	**β**	**B (SE)**	**β**
Size	1.699 (1.968)	.105	.112 (1.951)	.007	-1.718 (1.724)	-.106	-.046 (1.264)	-.003
Experience	1.269 (1.120)	.130	1.356 (1.073)	.139	1.384 (.941)	.146	-1.193 (.784)	-.122
Transfer of Resources	-.069 (.471)	-.018	-.317 (.461)	-.083	.465 (.434)	.121	.428 (.306)	.112
Degree of Integration	.706 (.333)	.249*	.646 (.324)	.228*	.442 (.293)	.156	.155 (.210)	.055
Expand product lines and enter new business			.626 (.238)	.308**	.705 (.213)	.347**	.207 (.163)	.102
Deal with interdependencies in a firm's environment			.725 (.406)	.202	-.012 (.386)	-.003	-.107 (.275)	-.030
Achieve economies of scale and scope			.292 (.381)	.089	-.415 (.369)	-.127	.237 (.270)	.073
Similar managerial approaches					.182 (.289)	.074	.275 (.204)	.112
Similar strategic orientation					.371 (.312)	.089	.324 (.300)	.093
Similar innovation and risk-taking strategies					3.555 (.876)	.525***	1.639 (.683)	.242*
Transformational Leadership							.471 (.129)	.352***
Transactional Leadership							-.136 (.298)	-.040
Passive Leadership							-1.291 (.205)	-.472***
(Constant)	(41.123)		(17.490)		(-.549)		(56.032)	
F Statistic	1.458		2.367*		4.871***		13.183***	
R^2	.075		.194		.459		.748	
ΔR^2			.119		.265		.289	
Adjusted R^2	.024		.112		.337		.675	
F-Change Sig.			3.387*		4.341***		22.554***	
Durbin- Watson	**1.692**							

Note: N=77, B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001

Figure 8.16: P-P plot and Scatterplot- ***Acquisitions in the Service Industry***

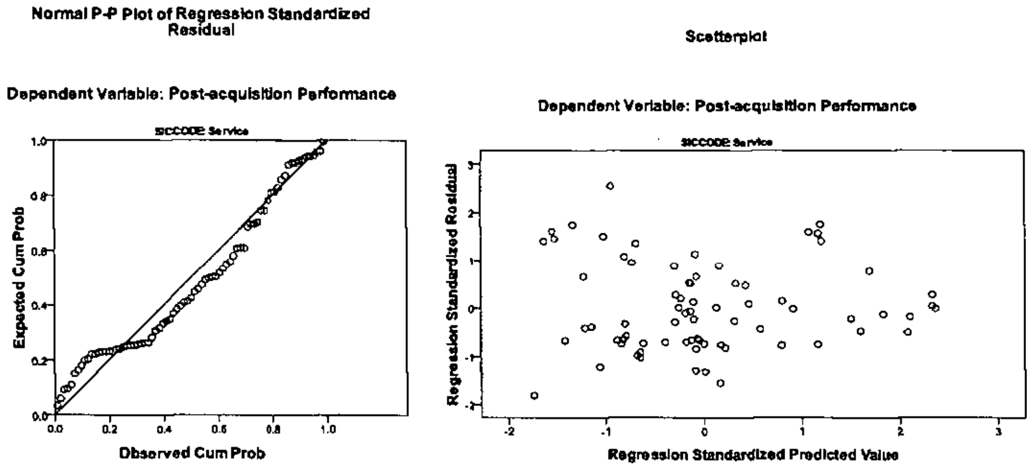


Table 8.19 reports the results of the hierarchical analysis in acquisitions in the service industry. In step 1 control variables of *relative size, experience, transfer of resources and degree of integration* were entered. There are no significant relationships between the control variables and post-acquisition organisational performance apart from *degree of integration* (β=.249, p<.05) which has a significant association with performance. F-statistic is not significant at 1.458 (df= 4, 72). R^2 is .075 and adjusted R^2 is .024 demonstrating that these variables do not account for the performance in acquisitions in the service industries. In step 2, the motives of the acquisition were added in the hierarchical regression. This resulted in a considerable increase in the R^2. The R^2 for step 2 is .194, improving the fit of the model by .119. In this step, *expanding product lines and entering new business* is significantly associated with performance (β=.308, p<.01), whereas there are no associations between *dealing with interdependencies in a firm's environment* and *achieving economies of scale and scope* with post-acquisition organisational performance. At the same time, *the degree of integration* (β=.228, p<.05), also, has a significant relationship with performance. F-statistic is significant at 2.367 (p<.05, df= 7, 69). R^2 as mentioned earlier is .194 and the adjusted R^2 is .112. In step 3, the factors of relatedness were entered. There was an increase in the value of R^2 by .265. In this step, *similar innovation and risk-taking strategies* is the factor that is significantly associated with performance (β=.525, p<.001), whereas there are no significant associations between the other variables and performance. *Expanding new product lines and entering new business* (β=.347, p<.01) is a significant predictor of acquisition performance in service firms. F-statistic is significant at 4.871 (p<.001, df= 3, 66). R^2 is .459 and adjusted R^2 is .337.

Moreover, the change of the F-statistic in this step is significant demonstrating that the inclusion of these variables is significant and therefore, the R^2 change is also significant. This means that factors of relatedness enhance post-acquisition acquisition performance and contribute to the understanding of the variance of the dependent variable.

Finally, in step 4, leadership as the main predictor of performance, was entered. This resulted in another increase in the R^2. The R^2 for this step, which includes all predictors of post-acquisition organisational performance, is .748, meaning that all these factors account for the 75% of the variation in post-acquisition organisational performance. There is a significant positive relationship between *transformational leadership* (β=.352, p<.001). *Passive leadership* was negatively significantly associated with performance (β=-.472, p<.001). F-statistic for this step is significant at 13.183 (p<.001, df= 3, 63). R^2 is .748 and adjusted R^2 is .675. In this step, only *similar innovation and risk-taking strategies* (β=.242, p<.05) is positively related to performance. At this point, it could be argued that the leadership factors act as suppressive variables to the degree of integration and to the motives of the acquisition. This means that leadership has a more significant role in enhancing post-acquisition performance in service firms than the degree of integration and the motives of the acquisition. However, due to the human intensive nature of the service firms, the degree of integration should be taken into account even if leadership has a more imminent effect on performance. F-statistic change is also significant as well, implying that the leadership elements are significantly influencing the variance in post-acquisition organisational performance. Moreover, figure 8.16 shows the linearity, normality and homoscedasticity of the relationship.

It is also observed in this table that two variables lose their significance levels across the different steps of the hierarchical regression. The first variable is the degree of integration. This variable was significant at step 1 and step 2 but lost its significance in the later steps. This is due to the introduction of stronger variables that explain the variations in the dependent variable. Research on the degree of integration has generated different results. Some researchers found a positive association between the degree of integration and post-acquisition performance (Stahl and Voigt, 2008; Weber, 1996), whereas some find no association at all (King *et al*, 2008). In this case, the degree of integration stops influencing subsequent acquisition performance when factors of relatedness (step 3) and leadership variables (step 4) are introduced. This means that the latter factors and variables are stronger predictors of post-acquisition organisational performance than the degree of integration. Similarly, in step 4 it was observed that expand product lines and enter new business also became an insignificant predictor of acquisition performance when the variables of leadership were entered. As mentioned earlier, there is no literature that has investigated this relationship and therefore, it can be concluded that the motives of an acquisition do not play a critical role in enhancing performance in acquisitions in services industries. Rather, leadership and more importantly transformational leadership is the strongest predictor of performance in this case.

To fully understand the predictors of performance in acquisitions in the service industries backward deletion regression was employed. The results from this analysis are presented in table 8.20.

Table 8.20: Backward deletion regression in acquisitions in the service industries

Variables	B	(SE)	β
Transfer of Resources	.585	(.243)	.153*
Expand product lines and enter new business	.320	(.133)	.157*
Similar innovation and risk-taking strategies	2.332	(.448)	.345***
Intellectual Stimulation	1.974	(.372)	.381***
Reactive Leadership	-1.221	(.312)	-.315***
Laissez-faire Leadership	-1.182	(.438)	-.201**
(Constant)	**F-Statistic**		**R^2**
(50.625)	33.592***		.742

Note: B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001. Adjusted R^2=.720. D-W: 1.623

The above table demonstrates that in acquisitions in the service industries, transfer of resources, the motives of the acquisition and culture fit are the variables from the combination potential that predict post-acquisition organisational performance. Transformational leaders should show intellectual stimulation, whereas reactive leadership and laissez-faire leadership should be avoided. These factors account for 74% of the variation in acquisition performance.

8.6.3.2 Acquisitions in the manufacturing industries

Table 8.21 presents the results of the hierarchical regression analysis and the relationship between leadership and post-acquisition performance in the manufacturing industries.

Table 8.21: Hierarchical Regression- *Manufacturing Industries*

Variables	Step 1		Step 2		Step 3		Step 4	
	B (SE)	**β**	**B (SE)**	**β**	**B (SE)**	**β**	**B (SE)**	**β**
Size	3.415 (1.681)	.203*	1.819 (1.865)	.108	.811 (1.745)	.048	-.951 (1.716)	-.056
Experience	3.977 (1.056)	.372***	3.216 (1.107)	.301**	2.540 (1.042)	.238*	1.166 (.984)	.109
Transfer of Resources	1.527 (.355)	.461***	1.288 (.369)	.389***	1.103 (.343)	.333***	.895 (.311)	.270**
Degree of Integration	.216 (.261)	.083	.361 (.286)	.139	-.163 (.319)	-.063	-.119 (.306)	-.077
Expand product lines and enter new business			.068 (.295)	.028	.346 (.285)	.143	.401 (.268)	.166
Deal with interdependencies in a firm's environment			.194 (.423)	.050	-.325 (.458)	-.083	-.088 (.430)	-.022
Achieve economies of scale and scope			.753 (.380)	.208*	.676 (.367)	.187	.410 (.330)	.113
Similar managerial approaches					.276 (.237)	.118	.564 (.238)	.242*
Similar strategic orientation					.690 (.436)	.199	.834 (.416)	.241*
Similar innovation and risk-taking strategies					1.415 (.649)	.214**	1.241 (.608)	.188*
Transformational Leadership							.359 (.170)	.212*
Transactional Leadership							-.277 (.287)	-.089
Passive Leadership							-1.066 (.341)	-.273**
(Constant)	(5.314)		(-1.487)		(-11.313)		(28.034)	
F Statistic	17.803***		11.263***		10.626***		11.985***	
R^2	.555		.593		.763		.799	
ΔR^2			.038		.170		.036	
Adjusted R^2	.524		.541		.693		.722	
F-Change Sig.			1.686		4.810***		.062	
Durbin- Watson	1.735							

Note: N=62, B: unstandardised coefficients, β: standardised coefficients. *p<.05, **p<.01, ***p<.001

Figure 8.17: P-P plot and Scatterplot- ***Acquisitions in the Manufacturing Industry***

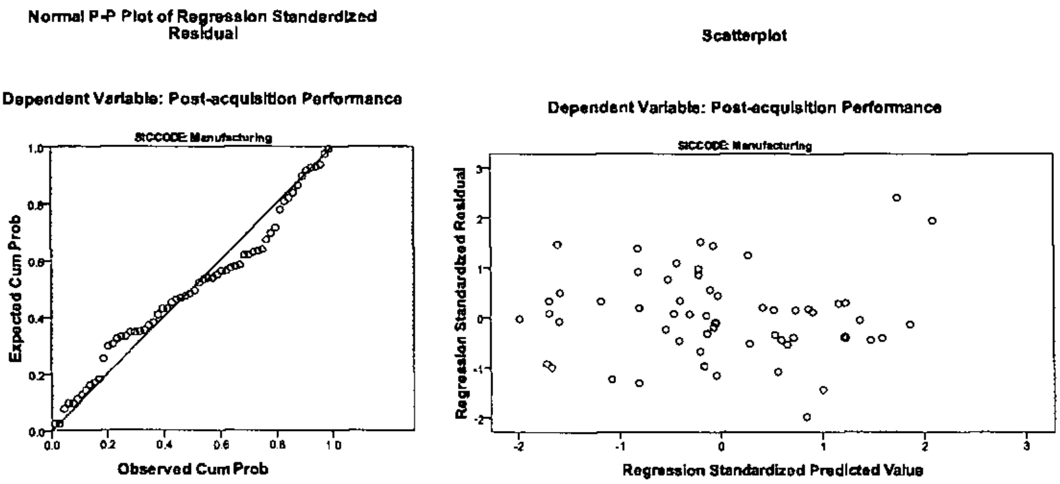


Table 8.21 reports the results of the hierarchical analysis in acquisitions in the manufacturing industry. In step 1 control variables of *relative size, experience, transfer of resources and degree of integration* were entered. There is a significant positive relationship between *size* (β=.203, p<.05), *experience* (β=.372, p<.001) and *transfer of resources* (β=.461, p<.001) and post-acquisition organisational performance. F-statistic is significant at 17.803 (p<.001, df= 4, 57). R^2 is .555 and adjusted R^2 is .524 demonstrating the cross-validity of the model. In step 2, the motives of the acquisition were added in the hierarchical regression. This resulted in an increase in the R^2. The R^2 for step 2 is .593, only improving the fit of the model by .038. In this step, *achieving economies of scale and scope* (β=.208, p<.05) was significantly associated with post-acquisition organisational performance. At the same time, *experience* (β=.301, p<.01) and *transfer of resources* (β=.389, p<.001). F-statistic is significant at 11.263 (p<.001, df= 7, 54). R^2 as mentioned earlier is .593 and the adjusted R^2 is .541. In step 3, the factors of relatedness were entered. There was an increase in the value of R^2 by .170. In this step, *similar innovation and risk-taking strategies* is the factor that is most significantly associated with performance (β=.214, p<.001). At the same time, *experience* (β=.238, p<.05) and *transfer of resources* (β=.333, p<.001) are significantly associated with performance. F-statistic is significant at 10.626 (p<.001, df= 10, 51). R^2 is .763 and adjusted R^2 is .693 demonstrating the cross-validity of the model. Moreover, the change of the F-statistic in this step is significant demonstrating that the inclusion of these variables is significant and therefore, the R^2 change is also significant. This means that factors of relatedness enhance post-acquisition

acquisition performance and contribute to the understanding of the variance of the dependent variable.

In the last step, step 4, leadership as the main predictor of performance, was entered. This resulted in small increase in the R^2. The R^2 for this step, which includes all predictors of post-acquisition organisational performance, is .799, meaning that all these factors account for the 80% of the variation in post-acquisition organisational performance. There is no significant association *transactional leadership* and acquisition performance. *Transformational leadership* was significantly associated with performance (β=.212, p<.05) whereas, *passive leadership* was negatively significantly associated with performance (β=-.273, p<.01). F-statistic for this step is significant at 11.985 (p<.001, df= 13, 48). R^2 is .799 and adjusted R^2 is .722. In this step, *transfer of resources* (β=.270, p<.01), *similar managerial approaches* (β=.242, p<.05), *similar strategic orientation* (β=.241, p<.05) and *similar innovation and risk-taking strategies* (β=.188, p<.05) are all positively related to performance. F-statistic change is not significant in this step, indicating that elements of leadership are not significant predictors of post-acquisition organisational performance. Rather, in manufacturing industry other variables, as seen in step 1, 2 and 3 are significant predictors of post-acquisition performance. Moreover, figure 8.17 shows the linearity, normality and homoscedasticity of the relationship.

In this hierarchical regression it can be observed that size is the first variable to lose its significance levels after step 1. This was initially expected, as size in all other regressions so far has not been associated with subsequent acquisition performance. This is also consistent with the theory as Bruton (1994) and Haleblian *et al* (2006) did not find significant relationships between size and post-acquisition organisational performance. Moreover, in steps 2 to 4 stronger predictors are introduced to explain the effect on the dependent variable, hence size lost its significant level. In step 3, it was observed that the motive: achieve economies of scale and scope lost the significant level due to the introduction of stronger variables such as the factors of relatedness and more specifically in this case similar innovation and risk-taking strategies factor. This means that in evaluating the variables that enhance post-acquisition organisational performance, when both motives and factors of relatedness are present, then the factors of relatedness are stronger predictors of performance than the motives and hence, motives lose their significance. This implies that acquisitions might achieve expected benefits and synergies regardless of their motives, if economies of fitness are in place. This is consistent with the literature both on the motives (Hitt *et al*, 2007) and on relatedness (Datta *et al*, 1991; King *et al*, 2008; Weber, 1996). Finally, in step 4, when the variables of leadership are entered then organisational fit and strategic fit became significant predictors of performance. This is due to the transformational leaders' inherent capabilities and competencies to assess the right target and plan the integration accordingly while creating value for the acquisition (Morosini *et al*, 1998).

To fully understand the predictors of performance in acquisitions in the manufacturing industries backward deletion regression was employed. The results from this analysis are presented in table 8.22.

Table 8.22: Backward deletion regression in acquisitions in the manufacturing industries

Variables	B	(SE)	β
Experience	1.424	(.725)	.133*
Transfer of Resources	1.125	(.275)	.340***
Expand product lines and enter new business	.414	(.187)	.172*
Similar managerial approaches	.928	(.182)	.398***
Similar strategic orientation	.814	(.306)	.235**
Similar innovation and risk-taking strategies	2.000	(.570)	.302***
Intellectual Stimulation	1.907	(.445)	.314***
Idealised Behaviour	-.624	(.346)	-.153*
Laissez-faire Leadership	-1.101	(.386)	-.188**
(Constant)	**F-Statistic**		**R^2**
(-1.690)	30.608***		.770

Note: B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001, Adjusted R^2=.744, D-W: 1.818

In acquisitions in the manufacturing industries experience, transfer of resources, the motives for the acquisition, some degree of relatedness in terms of organisational, strategic fit and culture fit is needed to achieve higher performance results. Leaders should show attributes of intellectual stimulation, whereas, idealised behaviour and laissez-faire leadership should be avoided. At the same, the degree of integration and similar business-level strategy are negatively influencing performance and should be taken into account while implementing the integration process. These factors account for the 83.5% in the variation of the post-acquisition organisational performance in manufacturing firms indicating that if these conditions are met, then the likelihood of increased acquisition performance is high.

Tables 8.19 and 8.21 demonstrated that hypothesis 6(a) and 6(c) are supported whereas there is no significance between transactional leadership and subsequent acquisition performance (hypothesis 6(b)). Further analysis of the reasons that these hypotheses were supported or not will be presented in section 9.3 of the thesis.

8.6.4 The effect of leadership according to the degree of integration

Hypothesis 7 measures the effect of transformational leadership on the post-acquisition organisational performance in acquisitions in the service and manufacturing industries. Tables 8.23 and 8.25 report on the results of the hierarchical regression analysis and test the hypothesis.

7(a) Transformational leadership will have a stronger relationship with post-acquisition organisational performance in acquisitions with a high degree of integration than in acquisitions with a low degree of integration
7(b) Transactional leadership will have a negative relationship with post-acquisition organisational performance in acquisitions regardless the level of integration
7(c) Passive leadership will have a negative relationship with post-acquisition organisational performance in acquisitions regardless the level of integration

This hypothesis is based on the premise that more dynamics and complexities will be present when the acquiring firm will choose a high degree of integration than when it chooses a low degree of integration. This means that in circumstances when a high integration is needed, conflicts may arise between the employees as culture and organisational clashes are more likely to happen. This entails that the role of transformational leadership is more evident in acquisitions characterised by a high degree of integration.

8.6.4.1 Acquisitions with a high degree of integration

Table 8.23 presents the results of the hierarchical regression analysis and the relationship between leadership and post-acquisition performance in acquisitions characterised by a high degree of integration.

Table 8.23: Hierarchical Regression – *High Degree of Integration*

Variables	Step 1		Step 2		Step 3		Step 4	
	B (SE)	**β**	**B (SE)**	**β**	**B (SE)**	**B**	**B (SE)**	**β**
Size	3.247 (1.499)	.205*	1.182 (1.596)	.075	-1.519 (1.521)	-.096	-1.363 (1.226)	-.086
Experience	3.811 (.929)	.378***	3.299 (.903)	.327***	2.558 (.812)	.254**	.098 (.728)	.010
Transfer of Resources	1.132 (.359)	.296**	.809 (.362)	.212*	.966 (.320)	.252**	1.000 (.258)	.262***
Expand product lines and enter new business			.227 (.231)	.099	.527 (.222)	.230*	.341 (.193)	.149
Deal with interdependencies in a firm's environment			1.089 (.339)	.291***	.241 (.360)	.065	-.115 (.288)	-.031
Achieve economies of scale and scope			.249 (.358)	.071	.024 (.326)	.007	.196 (.258)	.056
Similar managerial approaches					.402 (.209)	.172*	.621 (.169)	.266***
Similar strategic orientation					.869 (.364)	.229*	.835 (.318)	.220**
Similar innovation and risk-taking strategies					1.700 (.609)	.260**	1.097 (.489)	.167*
Transformational Leadership							.495 (.123)	.370***
Transactional Leadership							-.356 (.208)	-.112
Passive Leadership							-.703 (.225)	-.226**
(Constant)	(16.465)		(3.919)		(-10.243)		(17.329)	
F Statistic	12.785***		9.626***		11.377***		18.535***	
R^2	.306		.433		.660		.769	
ΔR^2			.101		.253		.109	
Adjusted R^2	.282		.365		.603		.719	
F-Change Sig.			7.795**		8.174***		11.598***	
Durbin-Watson	**1.645**							

Note: N=91, B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001

Figure 8.18: P-P plot and Scatterplot- *High Degree of Integration*

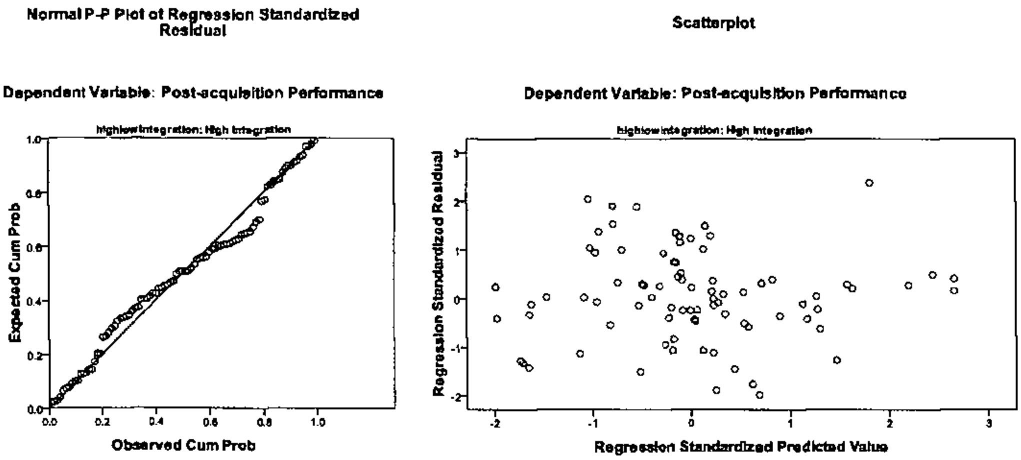


Table 8.23 reports the results of the hierarchical analysis in acquisitions characterised by a high degree of integration. In step 1 control variables of *relative size, experience, transfer of resources and degree of integration* were entered. There is a significant positive relationship between all the control variables, *size* (β=.205, p<.05), *experience* (β=.378, p<.001) and *transfer of resources* (β=.296, p<.01), and post-acquisition organisational performance. F-statistic is significant at 12.785 (df= 3, 87). R^2 is .306 and adjusted R^2 is .282. In step 2, the motives of the acquisition were added in the hierarchical regression. This resulted in a considerable increase in the R^2. The R^2 for step 2 is .407, improving the fit of the model by .101. In this step, *dealing with interdependencies in a firm's environment* (β=.291, p<.001) is the motive mostly associated with performance. At the same time, *experience* (β=.327, p<.001) and *transfer of resources* (β=.212, p<.05) are also associated with post-acquisition organisational performance. F-statistic is significant at 9.626 (df= 3, 84). R^2 as mentioned earlier is .407 and the adjusted R^2 is .365. In step 3, the factors of relatedness were entered. There was an increase in the value of R^2 by .253. In this step, *similar managerial approaches* (β=.172, p<.05), *similar strategic orientation* (β=.229, p<.05) and *similar innovation and risk-taking strategies* (β=.260, p<.01) are the factors of relatedness significantly associated with acquisition performance. At the same time, *experience* (β=.254, p<.01) and *transfer of resources* (β=.252, p<.01) are also associated with acquisition performance. Also, *expanding product lines and entering new business* (β=.230, p<.05) has an association with performance. F-statistic is significant at 11.377 (p<.001, df= 3, 81). R^2 is .660 and adjusted R^2 is .603 demonstrating the cross-validity of the model. Moreover, the change of the F-statistic in this step is significant demonstrating

that the inclusion of these variables is significant and therefore, the R^2 change is also significant. This means that factors of relatedness enhance post-acquisition acquisition performance and contribute to the understanding of the variance of the dependent variable.

Finally, in step 4, leadership as the main predictor of performance, was entered. This resulted in another increase in the R^2. The R^2 for this step, which includes all predictors of post-acquisition organisational performance, is .769, meaning that all these factors account for the 77% of the variation in post-acquisition organisational performance. There is a positive association between *transformational leadership* (β=.370, p<.001) and a negative association between *passive leadership* (β=-.226, p<.01) and performance. F-statistic for this step is significant at 18.535 (p<.001, df= 3, 78). R^2 is .769 and adjusted R^2 is .719. In this step, *transfer of resources* (β=.262, p<.001), *similar managerial approaches* (β=.266, p<.001), *similar strategic orientation* (β=.220, p<.01) and *similar innovation and risk-taking strategies* (β=.167, p<.05) are all positively related to performance. F-statistic change is also significant as well, implying that the leadership elements are significantly influencing the variance in post-acquisition organisational performance. Moreover, figure 8.18 shows the linearity, normality and homoscedasticity of the relationship.

In step 2, in the above hierarchical analysis, it is also observed that size lost its significance level when other variables were entered in the equation. Since, size did not have any significant effect in also the previous regression analyses, it can be concluded that relative size cannot be a predictor of post-acquisition organisational performance in most of the different acquisition settings. In step 3 and 4 it was observed that different motives interact differently when different sets of variables are introduced. In step 3, when factors of relatedness were entered the motive: expand product lines and enter new business became a significant contributor whereas, it lost its significance in step 4, when leadership was entered. Similarly, in step 3, deal with interdependencies in a firm's environment became insignificant. These changes can be statistically attributed to the fact that stronger variables were entered in the hierarchical regression to explain post-acquisition organisational performance. This means that the motives of an acquisition do not play a crucial role in enhancing post-acquisition performance, rather relatedness and leadership are better and stronger predictors. However, since there is no theory behind the relationship between the motives of an acquisition and the leadership style chosen to implement this strategy, it can only be speculated that if the leaders have the right capabilities and attributes and in this case, demonstrate transformational leadership traits, then regardless of the motive of the acquisition and with the condition that some degree of relatedness is present, there will be a positive impact on post-acquisition organisational performance.

To fully understand the predictors of performance in acquisitions with a high degree of integration backward deletion regression was employed. The results from this analysis are presented in table 8.24.

Table 8.24: Backward deletion regression in acquisitions with a high degree of integration

Variables	B	(SE)	β
Experience	1.188	(.640)	.118*
Transfer of Resources	1.008	(.208)	.264***
Similar managerial approaches	.927	(.145)	.397***
Similar innovation and risk-taking strategies	.901	(.411)	.138**
Similar autonomy and decision-making approaches	-.597	(.294)	-.131*
Individual Consideration	-.651	(.386)	-.139*
Intellectual Stimulation	2.117	(.399)	.371***
Inspirational Motivation	1.820	(.525)	.285**
Management By Exception	-.408	(.202)	-.114*
Laissez-faire Leadership	-1.257	(.402)	-.180**
(Constant)	**F-Statistic**		**R^2**
(13.124)	29.622***		.787

Note: B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001, Adjusted R^2=.761, D-W: 1.816

Table 8.24 demonstrates that in acquisitions with a high degree of integration previous acquisition experience, transfer of resources, similar managerial approaches and similar innovation and risk-taking strategies can enhance post-acquisition performance. Leaders should show attributes of intellectual stimulation and inspirational motivation in order to yield better results, whereas management by exception and laissez-faire leadership are styles that should be avoided. These variables account for 79% in the variation of post-acquisition performance making them critical success factors for its development.

8.6.4.2 Acquisitions with a low degree of integration

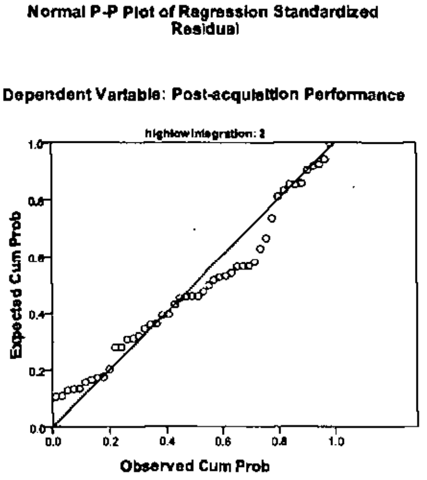
Table 8.25 presents the results of the hierarchical regression analysis and the relationship between leadership and post-acquisition performance in acquisitions characterised by a low degree of integration.

Table 8.25: Hierarchical Regression- *Low Degree of Integration*

Variables	Step 1		Step 2		Step 3		Step 4	
	B (SE)	**β**	**B (SE)**	**β**	**B (SE)**	**β**	**B (SE)**	**β**
Size	-1.607 (2.893)	-.088	-1.717 (2.766)	-.094	4.140 (2.386)	.228	3.257 (1.658)	.179*
Experience	-.157 (1.570)	-.015	.344 (1.522)	.033	3.102 (1.464)	.298*	-.293 (1.082)	-.028
Transfer of Resources	.835 (.556)	.237	.385 (.576)	.109	-.441 (.564)	-.125	.644 (.369)	.183
Expand product lines and enter new business			.761 (.318)	.355*	1.750 (.388)	.816***	.498 (.317)	.232
Deal with interdependencies in a firm's environment			.145 (.563)	.038	.205 (.516)	.054	.461 (.326)	.122
Achieve economies of scale and scope			.746 (.439)	.243	-.676 (.479)	-.220	.130 (.362)	.042
Similar managerial approaches					.303 (.425)	.105	.074 (.302)	.025
Similar strategic orientation					-1.581 (.711)	-.478*	-.223 (.465)	-.067
Similar innovation and risk-taking strategies					6.540 (1.295)	.959***	2.743 (.975)	.402**
Transformational Leadership							.932 (.192)	.526***
Transactional Leadership							-.375 (.399)	-.107
Passive Leadership							-1.910 (.284)	-.599***
(Constant)	(55.132)		(23.300)		(-42.324)		(36.456)	
F Statistic	.762		1.846		5.808***		17.424***	
R^2	.049		.213		.579		.857	
ΔR^2			.163		.366		.278	
Adjusted R^2	-.015		.097		.479		.817	
F-Change Sig.			2.835***		9.035***		20.795***	
Durbin- Watson	**2.064**							

Note: N=48, B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001

Figure 8.19: P-P plot and Scatterplot- *Low Degree of Integration*



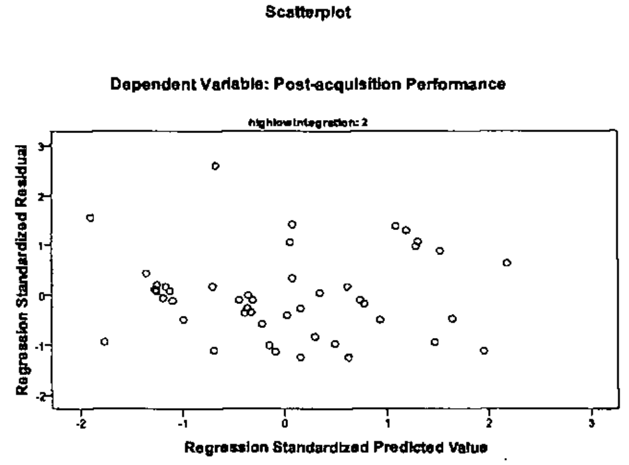


Table 8.25 reports the results of the hierarchical analysis in acquisitions characterised by low integration. In step 1 control variables of *relative size, experience, transfer of resources and degree of integration* were entered. There are no significant relationships between the control variables and post-acquisition organisational performance. F-statistic is not significant at .762 (df= 3, 44). R^2 is .049 and adjusted R^2 is -.015 demonstrating that these variables do not account for the performance in domestic acquisitions. In step 2, the motives of the acquisition were added in the hierarchical regression. This resulted in a considerable increase in the R^2. The R^2 for step 2 is .213, improving the fit of the model by .163. In this step, *expanding product lines and enter new business* is significantly associated with performance (β=.355, p<.05), whereas there are no associations between *dealing with interdependencies in a firm's environment* and *achieving economies of scale and scope* with post-acquisition organisational performance. F-statistic is not significant at 1.846 (df= 3, 41). R^2 as mentioned earlier is .213 and the adjusted R^2 is .097. This demonstrates these variables entered so far are not predictors of acquisition performance. In step 3, the factors of relatedness were entered. There was an increase in the value of R^2 by .366. In this step, *similar innovation and risk-taking strategies* (β=.959, p<.001) and *similar strategic orientation* (β=-.478, p<.05) are the factors most significantly associated with performance. At the same time, *experience* (β=.298, p<.05) and *expand product lines and enter new business* (β=.816, p<.001) are also significantly associated with post-acquisition organisational performance. F-statistic is significant at 5.808 (p<.001, df= 3, 38). R^2 is .579 and adjusted R^2 is .479. Moreover, the change of the F-statistic in this step is significant demonstrating that the inclusion of these variables is significant and therefore,

the R^2 change is also significant. This means that factors of relatedness enhance post-acquisition acquisition performance and contribute to the understanding of the variance of the dependent variable.

Finally, in step 4, leadership as the main predictor of performance, was entered. This resulted in another increase in the R^2. The R^2 for this step, which includes all predictors of post-acquisition organisational performance, is .857, meaning that all these factors account for the 86% of the variation in post-acquisition organisational performance. There is a significant positive relationship between *transformational leadership* (β=.526, p<.01), while *passive leadership* is negatively significantly associated with performance (β=-.599, p<.001). F-statistic for this step is significant at 17.424 (p<.001, df= 3, 35). R^2 is .857 and adjusted R^2 is .817. In this step, *size* (β=.179, p<.05) and *similar innovation and risk-taking strategies* (β=.402, p<.01) are all positively related to performance. F-statistic change is also significant as well, implying that the leadership elements are significantly influencing the variance in post-acquisition organisational performance. Moreover, figure 8.19 shows the linearity, normality and homoscedasticity of the relationship.

In this regression model there are also some changes in the significance levels among the variables. Again, it is observed that motives become insignificant in influencing subsequent acquisition performance when leadership is entered in step 4. As this is common among the other regression analyses, it can be concluded that the motives are not significant contributors in enhancing performance, when other variables, more organisationally and culturally focused are taken into account in the hierarchical regressions. Also, experience became significant in step 3 but lost its significance in step 4. This can be attributed to the fact that experience is an attribute that a transformational leader should have (Bass, 1999) and hence, it became redundant in step 4 when leadership variables were entered.

To fully understand the predictors of performance in acquisitions with a low degree of integration backward deletion regression was employed. The results from this analysis are presented in table 8.2.

Table 8.26: Backward deletion regression in acquisitions with a low degree of integration

Variables	B	(SE)	β
Experience	2.569	(1.003)	.247*
Transfer of resources	1.247	(.306)	.354***
Achieve economies of scale and scope	1.158	(.323)	.306***
Similar innovation and risk-taking strategies	2.438	(.532)	.357***
Individual Consideration	2.930	(.595)	.522***
Intellectual Stimulation	1.203	(.482)	.239*
Idealised Behaviour	1.808	(.464)	.431***
Inspirational Motivation	-6.107	(1.404)	-.626***
Contingent Reward	-1.720	(.713)	-.240*
Reactive Leadership	-2.422	(.387)	-.524***
Laissez-faire Leadership	-1.708	(.449)	-.346***
(Constant)	**F-Statistic**		R^2
(96.854)	27.105***		.912

Note: B: unstandardised coefficients, β: standardised coefficients, *p<.05, **p<.01, ***p<.001, Adjusted R^2=.878, D-W: 1.811

To succeed in implementing acquisitions with a low degree of integration experience, transfer of resources, motives of the acquisition, similar innovation and risk-taking strategies are essential contributors. Leaders should demonstrate individual consideration, intellectual stimulation and idealised behaviour and should avoid styles such as inspirational motivation, contingent reward, reactive leadership and laissez-faire leadership. These factors explain 91% of the variation in performance and therefore, if met can enhance post-acquisition organisational performance.

Tables 8.23 and8.25 provided evidence that only hypothesis 7(c) is supported as passive leadership is negatively associated with post-acquisition organisational performance. Hypothesis 7(a) is rejected as transformational leadership is positively associated with subsequent acquisition performance in both acquisitions regardless of the degree of integration. Finally, there is no support for hypothesis 7(b) as there is no significant relationship between transactional leadership and performance. Further discussion of these results along with the theoretical implications is presented in section 9.3.

8.7 Concluding Remarks

This chapter has presented the results of the hypotheses testing using the ordinary least squares regression and hierarchical regression. The first hypothesis tested the association between the combination potential and post-acquisition organisational performance. The variables that constitute the combination potential include the motives for the acquisition, the relatedness between the acquirer and the target organisation, the relative size, previous acquisition experience and the transfer of resources, capabilities and knowledge that takes place in the integration process. It was hypothesised that there is a positive relationship between these variables and post-acquisition organisational performance. The results presented in section 8.2 revealed that there is a positive relationship between some of these variables and post-acquisition organisational performance. More specifically, all three motives for an acquisition were found to be significant predictors of acquisition performance. In terms of relatedness, only similar managerial approaches, similar strategic orientation and similar innovation and risk-taking strategies were found to have a significant association with performance. Similarly, previous acquisition experience and transfer of resources are predictors of acquisition performance. Only size appeared to have a non-significant association.

The second hypothesis assessed the relationship between the integration strategies and the integration intention and post-acquisition organisational performance. The results presented in section 8.3 demonstrated that symbiosis has a significant positive impact on performance whereas, redesign a negative association. The degree of integration was found to have a significant positive relationship with performance indicating that the higher the degree of integration the better the post-acquisition performance.

Section 8.4 presented the results of the ordinary least squares regression analysis on the influence that leadership has on post-acquisition organisational performance. It was found that only individual consideration and intellectual stimulation, attributes of transformational leadership, are significantly associated with acquisition performance. At the same time, contingent reward, attribute of transactional leadership, is also highly significant with performance indicating that in some cases, some form of contingent reward and transactional leadership is required in order to achieve higher acquisition performance.

Reactive leadership was found to have a negative effect on performance indicating that it is a leadership style that should be avoided in the context of acquisitions.

Hypothesis four addressed the relationship between relatedness, transformational leadership and post-acquisition organisational performance. Section 8.5 presented the results of this analysis. This assertion investigated if there is a moderating effect of the factors of relatedness in the transformational leadership-acquisition performance relationship. It was found that only strategic and culture fit act as moderators in this relationship. This indicates that the level of charismatic and transformational leadership exhibited by the leader of the organisation is contingent upon the relatedness of the two organisations in terms of strategic fit and culture fit.

Hypotheses five, six and seven tested the deductive model in different acquisition settings. It was found that transformational leadership emerges in cross-border acquisitions and in acquisitions in the service industries whereas; it is not a highly significant predictor of performance in domestic acquisitions and in acquisitions in the manufacturing industries due to the nature of these transactions. In terms of the degree of integration between the acquirer and the target organisation, transformational leadership was found to be a significant predictor of post-acquisition organisational performance in both cases.

A possible rationale behind the study's results is discussed in the next chapter, together with their implications both in terms of the acquisition literature and the lessons suggested for practitioners.

Chapter 9:

Conclusion and Recommendations

9.1 Preamble

The aim of this chapter is to draw together the results of the analysis presented in previous chapters, placing them into the context of the literature and drawing implications for acquisition practitioners. The chapter examines the main findings and the contribution that this study makes to the body of knowledge on post-acquisition organisational performance enhancement and the role of leadership in this process. The chapter:

- revisits the theoretical background of the study (section 9.2),
- evaluates the main associations arising from the statistical analysis including the testing of the deductive model (section 9.3),
- considers the contribution to the present knowledge of the success factors in acquisitions (section 9.4),
- presents the conclusions of the research (section 9.5),
- outlines the limitations of the study as well as suggests implications for future research (section 9.6),
- discusses the practical implications (section 9.7).

9.2 Outline of the theoretical background of the study

The main aim of this study was to investigate the role of leadership in the context of acquisitions and to explore if leadership can enhance post-acquisition organisational performance. To achieve this aim this study adopted the process perspective of investigating the acquisition phenomenon drawing from the organisational and the culture school of thought. This theoretical background called for a multidisciplinary process that provided a framework whereby a more integrated approach in studying the dynamics of enhancing post-acquisition organisational performance was adopted. This multidisciplinary approach shed light on complex issues that occur in the post-acquisition organisational integration process.

The deductive model was formulated (see figure 1.1) based on the process school of thought. It studied the effect on post-acquisition organisational performance of variables such as the motives for an acquisition, relatedness, the integration strategy chosen by the acquiring company, leadership styles and the transfer of resources. In order to test the deductive model seven hypotheses were developed (see chapter 4) to test the effect of these variables in different acquisition contexts (the findings are presented in section 9.4). The deductive model was applied in domestic and cross-border acquisitions; in acquisitions in manufacturing and service industries; and in acquisitions with high and low degree of integration. At the beginning of the study, three key objectives were defined:

1. to extend the literature on the leadership-performance relationship in dynamic environments by empirically investigating the extent to which leadership influences performance in the context of acquisitions,
2. to establish how leadership styles act as a determinant of performance under different acquisitions conditions,
3. to establish the extent to which the relationship between leadership styles and post-acquisition organisational performance is contingent upon the degree of integration adopted by the acquiring firm. In meeting this objective this study further integrated the study of leadership within the literature on the acquisition process.

Each of these objectives has been met. The results are discussed in the following section.

9.3 Testing the deductive model

The primary aim of the study was to test the deductive model presented in figure 1.1. This model depicts the main factors that have an impact on the post-acquisition organisational performance. The deductive model was tested in the following manner. First, the impact of the combination potential on acquisition performance was considered (see section 8.2). Second, the associations between the post-acquisition integration strategies and the degree of integration were assessed against acquisition performance (see section 8.3). Then, the influence that the different leadership styles have on acquisition performance was tested (see section 8.4). Finally, this model was applied in different acquisition contexts to investigate how leadership styles emerge to enhance post-acquisition organisational performance (see section 8.6). This section discusses the results of the above assessments. This discussion attempts to explain the results of this study in light of the previous literature.

9.3.1 The association between the combination potential of the acquiring and acquired organisations and post-acquisition organisational performance

The process school of thought maintains that to effectively study the post-acquisition integration process, a multidisciplinary approach is required. This entails studying acquisitions in different stages and from different perspectives in order to assess the exact determinants of post-acquisition organisational performance. Therefore, this study included variables from the pre-integration phase as well as variables that occur during the integration process as suggested from the theoretical background chosen for this study. These variables cover the combination potential of the acquisition drawn mainly from the process school of thought but also integrating perspectives such as the organisational and culture school of thought. Hypothesis one asserted that the greater the combination potential between the two organisations the greater the subsequent performance of the acquisition. Table 9.1 presents the outcome of the analysis of hypothesis one.

Table 9.1: The outcome of hypothesis 1

Hypotheses 1(a)-1(g)	Finding
1(a) There is a positive association between the motives of the acquisition and performance	*Supported*
1(b) There is a positive association between the elements of organisational fit and performance	*Supported*
1(c) There is a positive association between the elements of strategic fit and performance	*Supported*
1(d) There is a positive association between the elements of culture fit and performance	*Supported*
1(e) There is a positive association between the relative size of the two companies and performance	*Rejected*
1(f) There is a positive association between previous acquisition experience and performance	*Supported*
1(g) There is a positive association between transfer of resources, capabilities and knowledge and performance	*Supported*

The literature mentions that in order for companies to realise the potential of the acquisition certain dynamics should be taken into account. Table 9.1 confirms the need for a multidisciplinary approach in acquisitions. The results demonstrate that conditions such as the motives for the acquisition and previous acquisition experience are aspects of the pre-integration phase that are significant determinants of post-acquisition organisational performance. Angwin (2007) stressed the importance of the motives and Birkinshaw *et al* (2000) highlighted previous acquisition experience and the transfer of resources between the two organisations as predictors of acquisition performance. Complementing their research, this study reports similar results. Transfer of resources, capabilities and knowledge has a positive relationship with post-acquisition organisational performance indicating that it contributes to the success of the acquisition. This corroborates studies by Bresman *et al* (1999), Fubini *et al* (2007) and Ranft and Lord (2002) who found that knowledge flows and resource sharing between the acquiring and the target organisations can lead to enhanced acquisition performance.

This research establishes that previous acquisition experience and transfer of resources have a significant positive impact of acquisition performance. This means that it is crucial for organisations to establish learning mechanisms, focusing on knowledge creation and transfer that contribute to the ability of managing the integration process effectively. Finally, the motives of the acquisition are important predictors of performance. This research found that in the 6th acquisition wave motives such as expansion of product lines, entrance to new business, achievement of economies of scale and scope and dealing with interdependencies in a firm's environment all contribute to performance enhancement. Overall, the results reported in this research on combination potential validate previous studies investigating similar issues and patterns. These findings point towards the need of a holistic understanding on the dynamics that can affect the post-acquisition performance and provide a significant basis for assessing the deductive model presented in figure 1.1.

Relatedness between the two organisations, a factor that can affect both the pre-integration stage as well as the post-acquisition integration process, is found to have a positive impact on the subsequent acquisition performance. This corroborates previous studies on the relatedness of the two organisations implying that an initial assessment of the target can lead to the success of the post-acquisition integration process (Homburg and Bucerious, 2006; Park, 2002; Stahl and Voigt, 2008). Larsson and Lubatkin (2001) emphasised economics of fitness or relatedness between the acquirer and the target. The results from the overall analysis of the factors of relatedness are consistent with the literature. Krishnan *et al* (1997) reported positive relationships between complementarity and post-acquisition performance. Similarly, Park (2002) found that relatedness is more beneficial since it generates more synergies. The most significant relationship is between strategic fit and performance meaning that companies that have similar products, technologies and customer segmentation are more likely to achieve synergies than companies who are not related. This is consistent with the results of Lubatkin (1983) who argued that some degree of strategic relatedness between the acquirer and the target is beneficial to value creation. Organisational fit and culture fit are also significantly associated with performance supporting the findings of Larsson and Lubatkin (2001) and Uhlenbruck *et al* (2006) who argued that both organisation and culture fit are good predictors of performance. However, the study contradicts findings of Morosini *et al* (1998) who found that culture distance between the two organisations can also have a positive impact on post-acquisition performance. It should be noted that Morosini's *et al* (1998) study on cultural distance contradicts the process school of thought assertion that cultural similarities enhance acquisition performance.

Overall, this study highlights that similar managerial practices, similar strategic orientation and similar innovation and risk-taking strategies are the most important predictors of performance. It maintains that if the two organisations have the above similarities then the performance of the acquisition will be higher than expected and there is a high possibility that the acquisition will realise the expected synergy. Similarities in the organisational, strategic and culture fit maintain that there will be fewer conflicts among the organisations, better communication and coordination among employees and departments. However, it should also be noted that relatedness is not the sole factor that contributes to acquisition success. For synergy to be realised other factors should be taken into account such as previous acquisition experience and transfer of resources.

This hypothesis has generated a profile of the combination potential of the two organisations under the study's sample. It has found positive significant relationships between all the conditions of the combination potential apart from the relative size. This allows for a holistic picture to be built when all the items of the combination potential are taken into account. This means that acquisitions will result in enhanced performance if some conditions are met. These are the choice of the right motives that are guided from the creation of synergy and value rather than opportunistic instances, the screening of the two organisations for economies of fitness, some previous acquisition experience of the acquisition leader and finally the transfer of resources, capabilities and knowledge between the two organisations. However, this only concerns the variables of the combination potential studied alone, without the introduction of other dynamics that can also influence the performance of the acquisition. In this study these other dynamics are the integration strategies, leadership and different acquisition contexts as discussed in the following sections. This implies that the combination potential, although it provides a framework to be followed for the success of the acquisition, it is not the sole indicator of enhanced acquisition performance. Rather, other dynamics as mentioned above should also be taken into consideration.

9.3.2 The association between the post-acquisition integration strategies and post-acquisition organisational performance

The post-acquisition integration strategy that the acquiring organisation will implement has a direct effect on the subsequent organisational performance. Hypothesis two tested the effects that each of these strategies have on post-acquisition organisational performance. Table 9.2 presents the results.

Table 9.2: The outcome of hypothesis 2

Hypotheses	Finding
2(a) There is a positive relationship between post-acquisition organisational performance and preservation strategy	*Rejected*
2(b) There is a positive relationship between post-acquisition organisational performance and symbiosis strategy	*Supported*
2(c) There is a negative relationship between post-acquisition organisational performance and redesign strategy	*Supported*
2(d) There is a negative relationship between post-acquisition organisational performance and absorption strategy	*Rejected*
2(e) There is a positive relationship between the degree of integration and post-acquisition organisational performance	*Supported*

The integration strategy chosen is closely linked with synergy realisation. Larsson's (1993) discussion of synergies points out the delicate balance that must be achieved in integration. The concept of synergy, ubiquitous in the acquisition literature, related to the effect of the whole being greater than the sums of its parts (Hitt *et al*, 2001) as a result of interdependencies between the parts. These synergies in acquisitions can take on both a positive and negative nature (Javidan *et al*, 2004). Higher levels of integration are theoretically associated with greater realisation of the potential interdependencies. The degree or level of integration, therefore, is an important predictor of post-acquisition organisational performance because it reflects the trade-off between the beneficial and dysfunctional consequences, or the positive and negative synergies of integration. It is imperative for the acquiring firm to choose the right strategy to integrate the combined organisation.

The results indicate that only a symbiosis strategy has a positive effect on post-acquisition organisational performance whereas, redesign strategy has a negative effect on acquisition performance. There were no significant relationships between preservation strategy and absorption strategy on subsequent acquisition performance and therefore, any further conclusions cannot be drawn. The symbiotic approach requires both firms to undergo some changes as efforts are made to create a combined firm that reflects the core competencies and leading practices of both firms. This is further facilitated by the transfer of resources, capabilities and knowledge flows between the acquirer and the target (Zollo and Singh, 2004). Since there is a transfer of resources and knowledge, attempts are made to amalgamate the two organisations (Ellis, 2004). This requires close collaboration between the two organisations in order to minimise any potential conflicts and culture clashes as there will be a mutual agreement towards this transformational approach where fundamental changes will occur in the operating practices of the firms (Marks and Mirvis, 2001). Previous studies indicate that this strategy has the highest positive impact on post-acquisition performance (Ellis, 2004; Haspeslagh and Jemison, 1991; Marks and Mirvis, 2001) and the results of this study confirm the literature. The symbiosis strategy calls for a high need for interdependence and organisational autonomy (Haspeslagh and Jemison, 1991). Symbiosis is the strategy that contributes the most to acquisition performance but at the same time is the most difficult strategy to implement. This mutual dependency and coexistence of the two organisations can cause friction and conflicts if not managed properly. Haspeslagh and Jemison (1991) also pointed out that leadership is also important in this stage.

The results of this study also confirm findings in the literature on the relationship between the redesign strategy and acquisition performance. Napier (1989) as well as Zollo and Singh (2004) found negative associations between the redesign strategy and acquisition performance. In a redesign acquisition, the policies and practices of one firm (usually the target) change dramatically. These changes can be in the direction of becoming more like the buyer ('moulding') or of altering the target's policies and structure from its original form ('reshaping') (Napier, 1989). Changes in policies, structures and organisational culture of the target organisation impacts adversely on subsequent acquisition performance (Amiot *et al*, 2006; Meyer and Altenborg, 2007; Zollo and Singh, 2004) as well as having a negative impact on employee behaviour and organisational identification (Bartels *et al*, 2006; Krug and Hegarty, 2001).

9.3.3 The association between the leadership styles and post-acquisition organisational performance

Hypothesis three examined the relationship between the three leadership styles proposed by Bass (1985) and post-acquisition organisational performance. Transformational leadership generated greater performance than transactional leadership, which focuses on promoting the individual interests of the leaders and their followers and attaining the satisfaction of contractual obligations on the part of both by establishing objectives, monitoring and control of the results (Antonakis *et al*, 2003). The results presented in table 9.3 prove hypothesis 3(a) and demonstrate that transformational leadership has a positive significant relationship with post-acquisition organisational performance. At the same time, hypothesis 3(c) was also supported where the results indicate a negative effect that passive leadership has on acquisition performance. In addition, there is no statistical evidence that transactional leadership has a negative effect on acquisition performance. However, the negative direction can only be suggestive of a negative association between transactional leadership and post-acquisition organisational performance.

Tables 8.9-8.12 demonstrated that individual consideration and intellectual stimulation are the most important factors predicting performance in the acquisition context. In transactional leadership, contingent reward is also associated with high performance whereas, reactive leadership is negatively related to performance. The results, hence, depicted that transformational leadership enhances post-acquisition organisational performance. Transactional leadership overall has a negative impact although the results are not statistically significant. This is due to the positive relation between contingent reward and performance. These findings are supported in the literature. Howell and Avolio (1993) found that there is a positive relationship between the factors of transformational leadership and performance. However, contrary to the findings of this study, the authors reported that there is a negative relationship between contingent reward and performance. Similarly, Yammarino *et al* (1997) and Zhu *et al* (2005) reported a positive relationship between transformational leadership and performance and a negative relationship between passive leadership and performance. O'Regan and Ghobadian (2004) found that passive leadership style did not have any association with performance outcomes. Acquisitions are complex and dynamic phenomena that require transformational leadership (Haspeslagh and Jemison, 1991). However, it could be argued that in order for the organisations to be integrated leaders should also show elements of contingent reward in the form of setting correct performance targets, assigning responsibilities and making clear what is expected when the performance targets are met as well as expressing satisfaction when these are met. Only Bass *et al* (2003) found positive relationship between contingent reward and performance in a changing environment. Waldman *et al* (2001) reported only marginal and statistically insignificant relations between contingent reward and performance in environments, similar to acquisitions, characterised by change and uncertainty.

Table 9.3: The outcome of hypothesis 3

Hypotheses	Finding
3(a) There is a positive relationship between post-acquisition organisational performance and transformational leadership	*Supported*
3(b) There is a negative relationship between post-acquisition organisational performance and transactional leadership	*Rejected*
3(c) There is a negative relationship between post-acquisition organisational performance and passive leadership	*Supported*

Further analysis was carried out in order to assess which of the attributes of each leadership style impact on acquisition performance. Only individual consideration and intellectual stimulation from the transformational leadership attributes were found to affect acquisition performance. This means that in acquisitions transformational leaders should exhibit behaviours such as being innovative in solving complex problems that arise during the post-acquisition integration process. Moreover, leaders should be considerate of individuals and employees, understanding the major acculturative stress that they might undergo during the integration process (Nemanich and Keller, 2007). Transformational leadership through individual consideration and intellectual stimulation generates faith, pride and respect (Judge and Bono, 2000).

The charisma that transformational leaders show enable them to transmit the importance of having a shared mission, of creating a feeling of belonging to the organisation and of infusing purpose into the other members of the organisation (De Hoogh *et al*, 2005). Intellectual stimulation during the integration process promotes employees' intelligence, knowledge and learning so that they can adjust to the change process of the acquisition and be innovative in their problem solving and solutions to the continuous adjustment needed (Fubini *et al*, 2007). Individualised consideration, on the other hand, is the personal attention and encouragement of self-development that a leader imparts to the employees (Bass, 1999) during the integration process in order to inspire them to meet the objectives of the acquisition and achieve higher financial results. This corroborates Shamir's *et al* (1993) findings that pointed out that a charismatic leader is likely to emerge when the social situation, such as the acquisition process, makes people feel distress. The results also validate Shamir and Howell's (1999) findings that charismatic leadership is more likely to emerge when firms are in crisis situations or operate in dynamic, unstable external circumstances. The results also verify that transformational leadership is needed in situations where the relationship between performance and goal accomplishment is ambiguous (Jacobsen and House, 2001). The post-acquisition integration process requires implementation capabilities and clear vision from the leader. The charismatic leader's behaviour is critical for clarifying the direction for implementing the change (Howell and Shamir, 2005).

The analysis that was carried out on the transactional leadership attributes revealed that contingent reward is positively associated with post-acquisition organisational performance. This demonstrates that in acquisitions a leader who exhibits contingent reward traits through setting up and defining agreements or contracts to achieve the acquisition objectives, discovering individuals' capabilities and specifying the compensation and rewards that can be expected upon completion of the tasks is likely to enhance acquisition performance. The results complement Bass's *et al* (2003) findings that there is a positive relationship between contingent reward and performance in a changing environment. The findings extend the work of Bass *et al* (2003) by placing the effect of contingent reward on performance in the dynamic context of the post-acquisition integration process. The results also support the full range of leadership theory (Avolio and Bass, 2004) that transformational and transactional leadership are not two distinct mutually exclusive leadership styles, rather they complement each other (Avolio, 1999; Waldman *et al*, 2001). The two leadership styles may differ in relation to the process by which the leader motivates subordinates as well as in the process in which the goals are met but in acquisitions they are both utilised by the same leader in different amounts and intensities in order to achieve the harmonisation of the post-acquisition integration process and enhance the subsequent acquisition performance.

9.3.4 The association between transformational leadership, relatedness and post-acquisition organisational performance

A considerable number of studies focus on the difficulties in post-acquisition integration where the relatedness variables, such as the strategic, organisational or culture fit are related to the intermediate variables and consequently to acquisition performance (Colombo *et al*, 2007). In this case, the intermediate variable is transformational leadership. It was argued that variables of relatedness can intervene in deploying a transformational leadership style, although Colombo *et al* (2007) argued that skilful and charismatic managers can create value even in a difficult acquisition where relatedness is not evident, leveraging on the integration process. Hypothesis four tested the moderating effect of relatedness in the transformational leadership-acquisition performance relationship.

Table 9.4: The outcome of hypothesis 4

Hypothesis 4	Finding
Relatedness will moderate the relationship between transformational leadership and post-acquisition organisational performance	*Supported*

The moderated regression analysis revealed that there is a moderation effect in this relationship only in the form of strategic fit and culture fit. Strategic fit has a negative influence on the relationship between transformational leadership and post-acquisition organisational performance whereas, culture fit has a positive effect on this relationship. These results indicate that similarities in products, technologies, customers and markets will have a negative impact on the relationship between transformational leadership and performance. The role of the transformational leaders in achieving the harmonisation of the integration process and enhancing the organisational performance will be hampered by a high level of strategic relatedness. Although the results do not indicate why and how strategic fit has a negative moderating effect in the leadership-acquisition performance relationship, it could be argued that due to this high degree of strategic similarities the integration process will be smoothly implemented without the requirement of a transformational leader. This conclusion is drawn from the strategic fit literature, which has suggested that a high degree of strategic fit between the two organisations can lead to synergy realisation and enhanced performance (Homburg and Bucerius, 2005; Lubatkin, 1983).

On the other hand, similarities in innovation and action orientation strategies, similarities in risk-taking attitudes as well as similarities in the perceptions of employee management and performance orientation were found to have a positive influence on the relationship between transformational leadership and post-acquisition organisational performance. This means that transformational leaders will face less obstacles and conflicts when there are evident culture similarities between the target organisation and the acquiring organisation. This will allow the transformational leader to clearly articulate the strategic vision and action as well as to effectively integrate the departments, processes and practices of the two organisations (Ellis, 2004), minimising at the same time any conflicts that might occur during the integration process. Overall, this hypothesis specifies that although transformational leadership has a positive impact on post-acquisition organisational performance, this impact will be more evident if there are organisational culture similarities among the two organisations.

9.3.5 Leadership in domestic and cross-border acquisitions

Hypothesis five investigated the role of leadership in enhancing performance in domestic and cross-border acquisitions. It was asserted that transformational leadership will have a stronger influence in cross-border acquisitions compared with domestic acquisitions. The hypothesis was based on previous findings in the literature indicating that cross-border acquisitions are more complex than domestic and require a transformational leadership approach to manage the integration process (Meyer and Lieb-Doczy, 2003; Morosini *et al*, 1998; Seth *et al*, 2002). Moreover, it was also asserted that transactional leadership and passive leadership will have a negative relationship with acquisition performance.

Table 9.5: The outcome of hypothesis 5

Hypothesis 5	Finding
5(a) Transformational leadership will have a stronger relationship with post-acquisition organisational performance in cross-border acquisitions than in domestic acquisitions	*Supported*
5(b) Transactional leadership will have a negative relationship with post-acquisition organisational performance in both domestic and cross-border acquisitions	*Rejected*
5(c) Passive leadership will have a negative relationship with post-acquisition organisational performance in both domestic and cross-border acquisitions	*Supported*

The results from table 8.15 demonstrated that in domestic acquisitions transformational leadership is not closely associated with performance; rather other factors contribute to enhancing post-acquisition organisational performance. Table 8.15 showed that for a domestic acquisition to be successful some degree of relatedness is required as well as transfer of resources, capabilities and knowledge between the two organisations. This means that if similar managerial approaches, similar strategic orientation as well as similar innovation and risk-taking strategies are in place, then there is an increase of performance without the presence of leadership. Likewise, if there is a transfer of resources between the two organisations and these resources are effectively managed due to the high degree of organisational and culture fit, then the effect of leadership on acquisition performance is negligible. This also points out that having some degree of fit reduces the possible culture clashes facilitating the integration process and enhancing post-acquisition organisational performance without the eminent presence of transformational leadership. The only significant relationship between leadership and performance is that of the negative relationship between passive leadership and acquisition performance. This means that passive leadership should be avoided when implementing corporate strategies requiring integration capabilities as well as when managing an organisation. It should also be pointed out that motives in this regression do not appear to have a significant relationship with performance or with the other variables indicating that in domestic acquisitions they do not account for acquisition success. The results contradict the assumption of the process school of thought which indicated that motives influence acquisition outcome (Birkinshaw *et al*, 2000). Nonetheless, it should be pointed out that relatedness and leadership factors act as suppressive variables as they influenced the significant relationship between expanding product lines and entering new business and performance.

The results depicted from table 8.15 corroborate the results of previous studies on the impact of relatedness and performance (Uhlenbruck *et al*, 2006; Zollo and Singh, 2004) as the elements of organisational, strategic and culture fit are positively related to post-acquisition organisational performance. This means that in domestic acquisitions economies of fitness are critical in enhancing the performance even if the presence of a transformational leader is not evident enough. Moreover, the results also attest to studies on the effect of transfer of resources in the acquisition context (Capron *et al*, 1998) as in domestic acquisitions transfer of resources, capabilities and knowledge are positively associated with performance. However, the findings of this regression analysis suggest that leadership is not an important predictor of acquisition performance in domestic acquisitions. This implies that in domestic acquisitions, performance can be enhanced and synergies created with the presence of economies of fitness and the transfer of resources between the two organisations. This can be attributed to the fact that domestic acquisitions are not characterised by high cultural distance and other factors that are inherent to cross-border acquisitions which can complicate synergy realisation. Hence, the presence of transformational leader in these acquisitions is not required as the results demonstrated.

Contrary to domestic acquisitions, transformational leadership is highly associated with performance in cross-border acquisitions. Passive leadership is negatively associated with performance, meaning that it is not an appropriate leadership style for any strategy implementation. However, the positive relationship between transactional leadership and performance in cross-border acquisitions although not significant is, also, noteworthy. It can be suggested that due to the nature of cross-border acquisitions, different leadership skills are required to better manage the integration process. In this case, some form of tight control, as well as inspirational and charismatic leadership, is needed to ensure the harmonisation of the integration process. Transactional leaders are mostly task-oriented and performance-oriented than transformational leaders and tend to be keen on meeting standards by pointing out mistakes and irregularities.

In cross-border acquisitions a degree of relatedness should also be present to facilitate the integration process and lead to acquisition success. In this case, similar innovation and risk-taking strategies are found to have the greatest impact on performance than the other factors of relatedness. This can be attributed to the delicate nature of cross-border acquisitions, where other dynamics such as national culture (Hofstede, 1981; Morosini *et al*, 1998; Tihanyi *et al*, 2005; Veiga *et al*, 1997) are also affecting the integration process. At this point it could be suggested that having some degree of organisational and culture fit between the two organisations in cross-border acquisitions can minimise the culture clashes that might arise from national culture, norms and system differences and the inherent nature of the organisations. Transfer of resources is also an important aspect contributing to acquisition performance in cross-border acquisitions. This is confirmed by Colombo *et al* (2007) who argued that performance in cross-border acquisitions enhances as redeployment of resources, capabilities and knowledge is taking place between the acquirer and the target when the cultural distance is smaller. The results indicate that performance enhancement occurs when culture distance is small, having similar innovation and risk-taking approaches as well as similar managerial approaches and when transfer of resources, capabilities and knowledge is taking place.

Moreover, the results suggested that the motives for the acquisition play a role in enhancing cross-border acquisition performance. It was found that expanding product lines and entering new markets and industries contribute to performance of acquisitions whereas; dealing with interdependencies in a firm's environment is not a contributory factor in performance. The results confirm the results of previous studies on the process school of thought suggesting a relationship between motives, integration processes and acquisition performance. The findings also validate research done by Walter and Barney (1990) on the motives for acquisition and performance. They argued that companies undergo cross-border acquisitions to increase their market share and expand their product lines as well as broaden their customer base. Cross-border acquisitions represent ways that can allow the acquiring organisation to reduce risks and costs of entering a new industry or market (Hitt *et al*, 2007) as well as attain competitiveness inherent in holding a sizeable market share or important market position (Walter and Barney, 1990). Overall, the above results point out that transformational leadership is requisite in cross-border acquisitions as they are more complex phenomena requiring more thorough consideration than domestic acquisitions. These results, therefore, support hypothesis 5(a) on the stronger impact of transformational leadership in cross-border acquisitions rather than in domestic acquisitions.

The results from the hierarchical regression presented in table 8.17 demonstrated that transformational leadership will be mediated by the transfer of resources, capabilities and knowledge as well as by the similar innovation and risk-taking strategies between the target and the acquirer. Colombo *et al* (2007) found that the redeployment of resources has a positive effect on the subsequent acquisitions performance in cross-border acquisitions. The reason for this relationship between leadership and the transfer of resources is probably due to transformational leaders incorporating a large portion of tacit knowledge. The redeployment of this tacit knowledge can act as a determinant of enhanced acquisition performance (Morosini *et al*, 1998). Transformational and charismatic leaders tend to realise envisioned changes as they advocate a better future for their organisation and for their followers, emphasising shared ideological values (Shamir *et al*, 1993).

Vaara (2003) argued that in cross-border acquisitions the leaders should recognise the overt and covert politics involved in post-acquisition decision-making. To implement these plans, Vaara (2003) indicated that leaders should pay special attention to the specific circumstances at hand and work to create platforms to gain acceptance and legitimacy for the changes. A transformational leader using their charismatic traits to manage the integration process will recognise the potential political conflicts that may arise in cross-border acquisitions and effectively deal with them so as to minimise the possibilities of divergence in the post-acquisition integration process.

The results of this hypothesis attest to the findings of other studies on cross-border acquisitions. Morosini *et al* (1998) found that transformational leadership can lead to the effective management of the cross-border post-acquisition integration. Likewise, Waldman (2004) found that transformational leadership will be more evident in cross-border acquisitions as cultural differentiation is more evident in such acquisitions. However, this does not mean that transformational leaders are not needed in domestic acquisitions. Transformational leaders have the capacity of transforming the organisation, reaching the intended goals and effectively manage the change process (Den Hartog *et al*, 1997). Therefore, in both cross-border and domestic acquisitions transformational leaders will be able to articulate a long-term vision, engage their employees and reach the objectives of the acquisition in the most effective and efficient way. This means that transformational leadership is one of the key determinants in enhancing post-acquisition organisational performance.

9.3.6 Leadership in acquisitions in service and manufacturing industries

Hypothesis six predicted that transformational leadership will have a stronger impact in acquisitions in the service industries rather than in acquisitions in manufacturing industries. Moreover, it also asserted that transactional leadership and passive leadership will have a negative effect on acquisition performance. The results from tables 8.19 and 8.21 proved this prediction. This hypothesis is based on the premise that different industries will have different levels of returns (Schoenberg, 2004) and will be influenced by different acquisition dynamics. Similarly, Dess *et al* (1990) found that industry effects and dynamics have an impact on the deployment of the acquisition strategy. This hypothesis entails that different acquisition dynamics will exist in service and manufacturing organisations including different leadership attributes. Transformational leadership in acquisitions in the service industries has a more significant relationship with post-acquisition organisational performance than in acquisitions in manufacturing industries. However, the effect of leadership is present in both industries demonstrating that leadership is an important determinant of performance even when the competitive advantage of the organisation lies primarily in capital rather than human assets.

Table 9.6: The outcome of hypothesis 6

Hypothesis	Finding
6(a) Transformational leadership will have a stronger relationship with post-acquisition organisational performance in acquisitions in service firms than in acquisitions in manufacturing firms	*Supported*
6(b) Transactional leadership will have a negative relationship with post-acquisition organisational performance in acquisitions in both manufacturing and service firms	*Rejected*
6(c) Passive leadership will have a negative relationship with post-acquisition organisational performance in acquisitions in both manufacturing and service firms	*Supported*

In service firms, the presence of transformational leadership enhances acquisition performance whereas, passive leadership has a negative influence. At the same time, only similarities in innovation and risk-taking strategies accounts for increased acquisition performance. It could be argued at this point that leadership styles act as suppressive variables to the motives of the acquisition and the degree of integration, implying that in service organisations transformational leadership is enough to manage the acquisition integration and act as a catalyst to performance enhancement. However, it could be argued that the degree of integration and the motives as well as culture fit and transformational are important factors in acquisitions in service firms. Service firms are human capital intensive based on human assets and therefore, careful consideration of the people involved is required. It could be argued that this is plausible only through careful selection of the motives of the acquisition as well as the degree of integration. Haspeslagh and Jemison (1991) argued that the higher the degree of integration the better the performance of the acquisition would be. However, Schoenberg (2004) argued that in service firms where more emphasis on the human assets is placed, high degree of integration would have an adverse impact on the performance of the acquisition. The results of this study indicate a positive relationship between high degree of integration and performance in service acquisitions, in the step before entering the leadership variable. Nonetheless, it could still be argued that the positive direction of the degree of integration, in the final model, can only be suggestive of the positive relationship between the degree of integration and acquisition performance.

Transformational leadership emerges in service acquisitions because it provides stimulation, motivation and consideration. Service firms present a distinctive managerial challenge as they hold key value-creating resources that are often proprietary to individuals, who may enjoy considerable operational autonomy (Empson, 2000). Along with transformational leadership, the degree of integration is also significant as well as similarities in innovation and risk-taking strategies. Due to their nature, service firms need managers that are transformational. The findings support Greenwood's *et al* (1994) assertion that diffuse authority, coupled with the professional staff's inclination to resist autocratic actions, militates against personalised directive leadership. Morris and Empsom (1998) argued that similar cultural norms should be in place to facilitate knowledge sharing within the firm and to enhance performance in acquisitions in service industries. The results support this argument demonstrating that culture fit, in terms of similar innovation and risk-taking strategies is another important predictor, after transformational leadership, of post-acquisition success.

On the other hand, in acquisitions between manufacturing firms transformational leadership is not a significant predictor of performance; rather other factors contribute to post-acquisition organisational performance. Table 8.21 depicts that transfer of resources, expanding product lines and enter new business as well as a high degree of relatedness is needed for an acquisition to be successful. This means that if the acquirer organisation and the target company are related in terms of strategic, organisational and culture fit, then the presence of a transformational leader is not required. However, for the acquisition to be successful there should be transfer of resources, capabilities and knowledge between the two organisations so as to maximise the combination potential. Acquisitions in the manufacturing industries happen, as the above table demonstrates, to increase market share, expand product lines and enter new business. For this objective to be met, resource sharing between the two organisations should be enabled to cultivate increased innovativeness in the combined organisation. Manufacturing firms place more emphasis on elements of relatedness, requiring similarities in the strategic orientation, similarities in managerial approaches and similarities in innovation and risk-taking strategies. It should be noted that the manufacturing companies of this sample, belong to the maturity stage of the industry life cycle and they view acquisitions as a means of expanding their market share, broaden their product range and attract more customers. In this case, acquisitions are seen as means of acquiring resources and innovation capabilities from the target organisation in order to enhance performance. To achieve these objectives, the results of the above table indicate that acquiring managers should have prior acquisition experience and that they have developed capabilities to integrate the two organisations. As far as the degree of integration is concerned, there is no significance between the degree of integration and performance, however, the negative direction of the relationship can only be suggested that high degree of integration has a negative effect on performance in manufacturing firms.

The results of these studies confirm previous results in the literature. Covin and Slevin (1988) as well as Khandwalla (1977) reported that in manufacturing firms leadership is not evident as the rigid structure and culture, inherent in manufacturing firms, may influence the leaders' orientation. Organisation structure in this case seems to moderate the effectiveness of the leader, hence the absence of any significant results between the transformational or the transactional leadership style and post-acquisition organisational performance. The nature and organisational culture of manufacturing firms may prevent the surfacing of a charismatic, transformational leader (Kotter and Heskett, 1992; Pillai, 1995).

The results support hypothesis 6(a) as transformational leadership is significantly associated with performance in service firms than in manufacturing firms. Service firms have a more flat and flexible structure and employees enjoy greater operational autonomy than their equivalents within conventional hierarchical structures that tend to exist in manufacturing firms (Hinings *et al*, 1991). A professional service team applies specialist technical knowledge to the creation of customised solutions to clients' problems (Alvesson, 1995). Its primary value-creating resources are, therefore, technical knowledge and client relationships (Empsom, 2000). Since these two most valuable resources of a service firm can, therefore, be proprietary to individuals within the firm, the integration process of two service firms poses a great challenge to the leader of the acquiring organisation. Individuals may be unwilling to share their proprietary knowledge and client relationships with their colleagues from the target organisation because they represent a source of power within the firm (Morris and Empsom, 1998). Therefore, a transformational leader with clear vision and clear communication channels will be able to integrate the personnel of the two organisations minimising any possible conflicts. Empson (2000) argued that cultural norms and implicit contracts must be developed over time to facilitate knowledge transfer within the combined firm and to manage the integration process. A transformational leader will be able to focus attention on the development of these norms as s/he will seek different perspectives when solving problems and will understand the needs, abilities and aspirations of the organisation's employees so as to effectively manage the integration process. The results are consistent with Garman's *et al* (2003) and Dubinsky's *et al* (1985) findings on service firms. The authors argued that services organisations view leadership in a manner that is distinct from other organisations. Both studies concluded that transformational leadership has greater impact on performance in service organisations than manufacturing.

The results of this study provide contradictory findings to those of Empsom (2000). Although Empsom (2000) argued that leadership is important to the integration of service organisations she found that in acquisitions in the service industries leaders should focus their attention on identifying and removing the key impediments to integration as the process unfolds, rather than attempting to drive the pace of change. Empsom (2000) also found that since the most valuable capability of service firms is on the proprietary knowledge of the employees, it is very difficult for the leader to manage and implement the integration of the employees of the two organisations and that leadership does not have an impact on the performance of the acquisition. However, this study found that transformational leadership and intellectual stimulation are drivers of post-acquisition organisational performance. This means that although the key value of a service firm is based on human capital and the proprietary knowledge of employees, transformational leaders will be able to motivate the employees, instil a sense of belonging and provide a long-term vision that will alleviate the stress levels that employees will feel and increase their organisational commitment and engagement.

9.3.7 Leadership in high and low degree of integration

Hypothesis seven investigated the role of leadership in acquisitions with high and low degree of integration. It was hypothesised that transformational leadership will have a stronger relationship with post-acquisition organisational performance in acquisitions with a high degree of integration than in acquisitions with a low degree of integration. At the same time, is was asserted that transactional and passive leadership will have a negative impact on acquisition performance. The results from tables 8.23 and 8.25 report that transformational leadership plays a significant role in acquisitions regardless the degree of integration between the acquirer and the target organisation. This points towards the conclusion that regardless of the degree of integration transformational leadership will be needed in order to provide vision, set clear goals and implement the integration change.

Table 9.7: The outcome from hypothesis 7

Hypothesis 7	Finding
7(a) Transformational leadership will have a stronger relationship with post-acquisition organisational performance in acquisitions with a high degree of integration rather in acquisitions with a low degree of integration	*Rejected*
7(b) Transactional leadership will have a negative relationship with post-acquisition organisational performance in acquisitions regardless the level of integration	*Rejected*
7(c) Passive leadership will have a negative relationship with post-acquisition organisational performance in acquisitions regardless the level of integration	*Supported*

Table 8.23 presents the predictors of performance in acquisitions characterised by a high degree of integration. The table shows that transformational leadership plays an important role in acquisitions when the degree of integration is high. At the same time, passive leadership is again negatively associated with performance meaning and it should not be a desired leadership style in implementing corporate strategies such as acquisitions. To achieve success of an acquisition characterised by a high degree of integration, organisations should give emphasis on transferring resources, capabilities and knowledge between the two organisations and have prior acquisition experience. This will facilitate and harmonise the integration process as in such circumstances exchanges between the two organisations will take place and the leader should have previous acquisition experience to facilitate the transfer. Also, in high integration acquisitions, relatedness has a significant role in predicting overall performance. The findings highlight that similarities in managerial approaches, in strategic orientation and in risk and innovation strategies should be present in order to facilitate the integration and lead to higher post-acquisition organisational performance. The results also suggest that cross-border acquisitions will have a negative impact on performance when the degree of integration is high. Haspeslagh and Jemison (1991), Birkinshaw *et al* (2000) and Zollo and Singh (2004) argued that acquisitions characterised by a high degree of integration need formal and tight controls to be successful as well as an experienced leader to manage the integration process. The findings of the analysis confirm these results.

In acquisitions characterised by low integration level transformational leadership has a significant role in enhancing post-acquisition organisational performance. Passive leadership is negatively associated with performance verifying that such style should not be exercised in an acquisition context as close monitoring, stimulation and consideration are needed to facilitate the harmonisation of the integration process and enhance the overall performance of the combined organisation. In acquisitions characterised by a low degree of integration, relative size has a significant relationship with the final outcome. This implies that the bigger the target organisation, the less willing the acquiring firm will be to fully integrate it under their operations, hence, the low degree of the overall integration of the target organisation. This contributes to increased performance because the bigger the relative size of the target organisation the more difficult it would be to integrate into the acquiring organisation. This could possibly lead to clashes and conflicts of interests between the two organisations, necessitating a low degree of integration and increased autonomy in delegating decisions.

Acquisitions characterised by a low degree of integration are often called preservation acquisitions. Preservation is the end state where the acquired company faces a modest degree of integration and retains its ways of doing business. The findings of the analysis demonstrate that for an acquisition with a low degree of integration to achieve high performance results, transfer of resources should take place. The acquisition policy is designed to pool the resources of the acquiring firm and acquired companies. Economies of scale and rationalisation of resources are the advantages usually proclaimed (Koening and Meier, 2001). Moreover, similar innovation and risk-taking strategies are also significant predictors of performance indicating that a degree of culture fit is needed to facilitate this degree of integration in order to coordinate activities and minimise the chances of a potential culture clash.

The results verify the importance of transformational leadership in every acquisition context. They highlight the need for a leader that will articulate a compelling vision (Bass *et al*, 2003), that will effectively manage the integration process (Javidan *et al*, 2004) and will minimise any potential conflicts or clashes that will arise during the integration process (Morosini *et al*, 1998). Overall, the results also indicate that transformational leadership is a significant contributor in enhancing post-acquisition organisational performance.

The importance of the successful integration of the acquired company in achieving desired acquisition results is widely accepted (Saxton and Dollinger, 2004). As the two organisations come together, there is the tendency from the acquiring company to impose their culture and management style on the acquired firm (Schweiger and Lipper, 2005;

Zollo and Singh, 2004). To appropriately and successfully deploy the target resources and take advantage of unique synergistic effects tight links are required between organisations (Saxton and Dollinger, 2004). The acquirer will install new organisational routines and practices that will inevitably lead to substantial conflict with a dysfunctional impact on performance (Stahl and Voigt, 2008). Therefore, transformational leadership traits in both acquisition contexts are critical. The transformational leader in the integration process will be able to articulate attractive visions, which focus attention on aspects that are inspirational, unique and attainable and offer a new order that can result in organisational distinction (Elenkov *et al*, 2005). These leaders will effectively develop and communicate clear and compelling imagery that recognises and draws on traditions.

9.4 Value-added contribution to existing knowledge

This research contributes to the existing body of knowledge in four distinct areas:

Covers the gap in the literature regarding the role of leadership in enhancing post acquisition organisational performance

This research covered the gap in the literature regarding the role of leadership in enhancing the post-acquisition organisational performance. It contributes to the acquisition literature as it places leadership in the post-acquisition integration context. It extends the work of Hunt (1990) who argued that research should also incorporate variables such as managerial competence in the post-acquisition integration process while integrating factors such as relatedness. This study complements Hunt's (1990) research by presenting the leadership attributes that are essential in the post-acquisition integration process and enhance subsequent acquisition performance. Moreover, it extends studies of Covin *et al* (1997), Graebner (2004), Haspeslagh and Jemison (1991), Nemanich and Keller (2007) and Sitkin and Pablo (2004) who have investigated the role of leadership in acquisitions (see section 4.2). These studies have mentioned leadership as a contributory factor on post-acquisition organisational performance but have not empirically tested this relationship. Most of them focused on the role of leader in managing employee behaviour after an acquisition (see Covin *et al*, 1997; Nemanich and Keller, 2007). Therefore, this study extends their findings and theoretical suggestions by providing the exact leadership attributes and styles that can enhance post-acquisition organisational performance. Using similar theoretical backgrounds and the acquisition context as an uncertain and dynamic internal environment, this study extended previous research by placing leadership in the acquisition context and derived conclusions on how leadership can enhance post-acquisition organisational performance.

Furthermore, the findings partly answer the question that Javidan *et al* (2004) posed on 'what attributes make the acquiring leader successful?'. The results revealed that intellectual stimulation is the most significant leadership attribute enhancing post-acquisition organisational performance in different acquisition contexts. This study is among the first studies that investigated the acquiring leaders' attributes and linked to the subsequent acquisition performance. Therefore, this study builds on existing work on the dynamics of the post-acquisition integration process (Birkinshaw *et al*, 2000; Kavanagh and Ashkanasy, 2006; Morosini *et al*, 1998; Schweizer, 2005) by adding the dynamics of leadership in this context.

It was highlighted that previous studies on leadership in acquisitions tackled issues such as employee behaviour (Nemanich and Keller, 2007) and acceptance of the leader (Kavanagh and Ashkanasy, 2006). This study extends existing research by providing the leadership attributes that can enhance post-acquisition organisational performance, effectively manage the employees of the combined organisation as well as build trust, commitment and efficient communication channels in order to transform the organisation as well as being accepted by their followers.

Contributes to the understanding of the process school of thought

This study also contributes to the process school of thought as an approach of measuring the determinants that enhance post-acquisition organisational behaviour and the dynamics of the post-acquisition integration process. It was found that the dynamics that significantly enhance post-acquisition performance are *similar managerial approaches, similar innovation and risk-taking strategies* and *transfer of resources, capabilities and knowledge*. This study, therefore, contributes to the relatedness and economies of fitness (Larsson, 1999) literature pointing out that these two variables from the organisational fit and culture fit, respectively, are the strongest determinants of post-acquisition organisational performance.

It extends the work of Capron (1999) and Homburg and Bucerius (2006) on strategic fit, who found contradicting results on the validity of strategic fit as the sole variable predicting relatedness of the two organisations. This study found that strategic fit as a form of relatedness does not have a significant influence on subsequent acquisition performance. This finding is also supported by Lubatkin's (1987) initial research on strategic fit. Therefore, it could be concluded that strategic fit is not among the significant determinants of performance and it cannot be the only predictor performance. Organisational fit in terms of similar managerial approaches is among the most significant predictors and this corroborates studies of Datta (1991), Krishnan *et al* (1997) and Schoenberg (2004) who mentioned that only similar managerial approaches of all the factors of organisational fit can be significant predictors of performance. The results also point out that culture fit in terms of similar innovation and risk-taking strategies is a determinant of performance. This finding contradicts but at the same time extends the work of Weber (1996) on culture fit as well as work of Larsson and Lubatkin (2001) and Stahl and Voigt (2008). These authors found positive relationships between all factors of culture fit and subsequent organisational performance. However, this study found statistically significant results only with similar innovation and risk-taking strategies. With this result, although it contradicts major studies done on culture fit, it also extends them as it provides a platform for further analysis on culture fit. Culture fit has been studied thoroughly in the literature but as Stahl and Voigt (2008) indicated in the latest meta-analysis, no consistent results are present in the literature, the results of this study are also an example of this inconsistency, and hence, this reinforces the need for further research. In addition, this study pointed towards the moderation effect that strategic and culture fit have on the relationship between transformational and post-acquisition organisational performance.

Moreover, the results on the importance of the transfer of resources, capabilities and knowledge during the post-acquisition integration process and their significance in determining post-acquisition organisational performance extend the work of Brock (2005), Capron *et al* (1998), Finkelstein and Haleblian (2002), Puranam *et al* (2006) and Ranft and Lord (2002). These studies investigated the effect that transfer of resources, capabilities and knowledge has on acquisition performance but mentioned that their main limitation is the use of a sole industry setting and acquisition context. This study offered an analysis of six different acquisition conditions and found that the transfer of resources, capabilities and knowledge is significantly associated with performance in all 6 different acquisition contexts. The transfer of resources, capabilities and knowledge was found to be the most significant determinant of performance in all the assessments of the acquisition contexts indicating that acquisitions can create value and realise the potential synergy when there is an exchange of resources between the two organisations.

The results also highlighted that the motives of an acquisition, although when tested independently of other variables, are positively associated with post-acquisition organisational performance, they lose their significance when other factors such as relatedness and leadership are entered in the model. In all hierarchical regressions, apart from the cross-border hierarchical regression, the motives lost their significance level when the factors of relatedness and leadership styles were introduced. This implies that these latter variables are stronger in explaining the post-acquisition organisational performance in most of the acquisition contexts investigated under this study. This also means that regardless the motives if the two organisations share similarities in terms of organisational, cultural and strategic directions and there is a transformational leader to manage the integration process then the performance of the acquisition will be increased.

This study complements and extends Larsson and Finkelstein's (1999), Birkinshaw *et al* (2000) and Schweizer's (2005) studies on the process school of thought by integrating pre-acquisition, post-acquisition as well as performance variables together in a deductive model. This study used the same pre-and post-acquisition variables but also introduced leadership styles as a factor of determining success of acquisitions and therefore, it extends their work on the process school of thought. These authors have mentioned leadership as a contributory factor on their future research recommendations but did not thoroughly investigated this phenomenon, thus, this study provides a new insight to their results with the introduction of leadership styles. It also makes a contribution to the process school of thought by simultaneously examining the effect that these variables have in six different acquisition contexts. This provided an extensive assessment on the impact that these variables have on performance. It covers a gap that several studies using the process school of thought did not address. Many of these studies were conducted in a single industry environment (see Bartels *et al*, 2006; Homburg and Bucerious, 2006; Krug and Hegarty, 2001) or acquisition context (e.g. Amiot *et al*, 2006; Nemanich and Keller, 2007; Schoenberg, 2004).

Provides an integrated model of measuring post-acquisition organisational performance

This study proposed an integrated way of measuring post-acquisition organisational performance combining financial and non-financial indicators of performance. It is important to measure post-acquisition organisational performance using multiple indicators so as to better evaluate the performance of the acquisitions as well as the impact that several independent variables have on acquisition performance. The study used non-financial indicators such as job satisfaction, efficiency in operations and productivity, innovativeness and competitiveness. The employment of these indicators was derived from a thorough analysis of performance indicators in chapter 5. It was highlighted that although studies in the strategic management field have started employing both financial and non-financial indicators of performance, in the acquisitions field that is still embryonic. Therefore, the study provides an integrated model of measuring the subsequent performance of acquisitions based on indicators that have not been assessed systematically in the acquisition literature. The factor analysis on these indicators revealed that there are three major aspects in acquisitions: innovation, market performance and organisational effectiveness. These factors combined with financial indicators such as market performance and accounting performance provide a holistic assessment of the overall post-acquisition organisational performance.

Contributes to the literature on the relationship between leadership and performance in dynamic environments

This study contributes to the leadership literature and especially to the relationship between leadership and performance. It was mentioned in chapter 1 and 4 that most of the studies on the leadership-performance relationships are conducted in stable environments as opposed to dynamic and complex environments (Nemanich and Keller, 2007). This study provides a contribution to the growing body of research that investigates this link. It corroborates studies that investigate leadership in complex environments (Marion and Uhl-Bien, 2001), leadership in uncertain environments (Agle *et al*, 2006; Waldman *et al*, 2001) and leadership in the context of organisational change (Eisenbach *et al*, 1999). The study attests to existing findings that transformational leadership has a crucial role in implementing change in organisations and achieving higher results. The findings of the study extend the literature on the relationship between leadership and performance in dynamic environments by finding which leader attributes are more effective and efficient in the context of acquisitions, following the multiple assessments of different acquisition contexts.

Moreover, this study makes a contribution to knowledge as the sample of the study is large enough to allow the generalisation of the findings. Previous studies investigating this relationship reported low response rates. For instance, Howell and Avolio (1993) had a sample of 78 managers, Yammarino and Dubinksy (1994) has a sample of 42 and De Hoogh *et al* (2004) had 54 chief executive officers. This study provides results on 139 chief executive officers of different companies that have engaged in acquisitions. It is among the first studies that apply leadership theory in investigating the relationship between leadership and performance in acquisitions. It contributes to the leadership literature by pointing out the importance that intellectual stimulation and individual consideration, elements of transformational leadership, have on post-acquisition organisational performance.

This study also sheds light on the academic debate on the importance of Chief Executive Officer's (CEO) charisma and its relationship with performance. Agle *et al* (2006) as well as Waldman *et al* (2001) did not find any positive results between CEO charisma and performance in uncertain and unstable environments. However, this study has found that charismatic and transformational leaders can effectively manage the acquisition and in return enhance the post-acquisition organisational performance of the combined firm.

9.5 Conclusions

Sections 1.4 as well as 9.2 outlined the three key objectives of this study. It should be mentioned that these three objectives were successfully met in this research. The first objective was to extend the literature on the leadership-performance relationship in dynamic environments. This was met by investigating the effect that different styles have on the subsequent acquisition performance. This study demonstrated that transformational leaders can play an important role in enhancing performance in dynamic contexts such as acquisitions. This contributes to the leadership literature as past studies have failed to find a significant relationship between transformational leadership and increased organisational performance in dynamic contexts (see Waldman *et al*, 2001).

The second objective was to investigate how leadership styles act as a determinant of performance under different acquisition conditions. In achieving this objective the study partly covers the gap in the literature mentioned by Javidan *et al* (2004). This study based on the Full Range of Leadership theory has provided the attributes that make an acquisition leader successful. It assessed the effect that leadership styles have in different acquisition contexts. The results pointed out that transformational leadership had a positive effect on post-acquisition organisational performance even in different acquisition contexts and environments. However, the results also point out that in some environments and contexts such as cross-border acquisitions and acquisitions in service industries transformational leadership has a more significant effect when compared to other contexts. Moreover, the results demonstrated that attributes of passive leadership should be avoided in acquisitions as they have a detrimental effect on post-acquisition organisational performance. The results of the analysis also point out that the effect that leadership has in enhancing post-acquisition organisational performance is also contingent upon the degree of relatedness between the two organisations. It was found that although high culture fit positively moderates the relationship between transformational leadership and subsequent acquisition performance, strategic fit has a negative moderating effect.

Finally, the third objective of this study aimed at integrating the study of leadership within the literature on the acquisition process. The study found that transformational leadership has a significant impact of post-acquisition organisational performance in acquisitions with high and low degree of integration. These results point towards a holistic approach in studying the effect of leadership in the acquisitions context. It was found that the effect of transformational leadership is contingent upon the degree of integration between the acquiring and acquired organisations. The results also pointed out that transactional leadership styles and passive leadership styles have a different effect on performance depending on the degree of integration chosen.

Overall, the results highlight the importance of transformational leadership in acquisitions. This is consistent with the literature on leadership. Transformational leaders generate a different way of thinking, seeking new solutions to problems and adopting generative exploratory thought processes (Sosik *et al*, 1998). Transformational leaders confront current reality by drawing on intellectual capital, mind power, know-how, imagination and learning (Bennis, 2004). Tushman and Romanelli (1985:209) stated that 'only transformational leadership has the potential to implement change'. This positive impact also positively influences organisational performance as demonstrated by the results of this study. Transformational leadership encourages good communication networks and a spirit of trust that enables the transmission and sharing of knowledge and motivates employees to work towards a specified goal and vision. These leadership attributes are of vital importance in the post-acquisition integration process when the integration of departments, employees, processes and practices is taking place. The example of transformational leadership committed to the organisation's goals, which stimulates their internalisation in its followers, will encourage the commitment to results on the part of the organisation's members (Bass, 1999).

In addition to providing the leadership attributes that will effectively manage the post-acquisition integration process in order to lead to enhanced post-acquisition organisational performance, this study provided an insight on the predictors of acquisition performance in different acquisition conditions and settings. The study found that the most significant predictors of acquisition performance are similar managerial approaches, similar innovation and risk-taking strategies as well as transfer of resources, capabilities and knowledge.

This study has investigated the dynamics that enhance acquisitions in different settings as well as the factors that can have an adverse impact on subsequent acquisition performance. Along with these dynamics the study pointed out which leadership attributes have a positive effect on acquisitions and the ones that can negatively influence the success of them. However, this study has its limitations, which are presented in the next section.

9.6 Limitations of the study and suggestions for future research

As with any research, potential limitations can be identified. A number of limitations were noted during the study which relate to methodological issues and the means by which the concepts were measured. These issues are outlined below.

One of the limitations of this research is its reliance on a single source of data (the mailed questionnaire) and the use of a single respondent in the study. However, this approach is consistent with the majority of survey based studies on the post-acquisition integration process (see section 6.5.3). Hambrick (1980:271) pointed out that 'researchers who attempt to identify an organisation's actual strategy by asking executives other than the chief executives may receive considerably less accurate information that might have been presumably assumed'. Moreover, this is inherent in the subject matter, to a great extent, as it is rare to find large sample studies with the richness of detail that is necessary to investigate the deep sources of value creation in acquisitions (Zollo and Singh, 2004). Using a single respondent in surveys on acquisitions such as the present study is acceptable. This study is consistent with studies that have measured the effect of leadership styles on the organisation's performance using a single respondent from each organisation (Bass *et al*, 2003; Fuller *et al*, 1996; Waldman *et al*, 2001; Zhu *et al*; 2005).

This research sheds light on the leadership attributes that can enhance post-acquisition organisational performance based on the full range of leadership theory. This research has focused on answering the question of 'what are the attributes' of a successful acquisition leader. Future research should focus on answering questions such as 'how do these attributes lead to enhanced performance?' and 'what are the specific actions that leaders make in order to ensure the harmonisation of the integration process?'. This study used a single respondent strategy. However, academics argue that the use of multiple respondents in this context could lead to richer and more coherent results (Kiessling and Harvey, 2006; Lubatkin *et al*, 1999; Veiga *et al*, 1997). Thus, in order to answer questions such as the ones posed above, multiple respondents should be used. This will allow researchers to build the complete profile of a successful acquisition leader. Future research should also investigate the perceptions of other members of the organisation about the effectiveness of the leader. The perceptions of the top management team (Kiessling and Harvey, 2006) as well as the perceptions of employees (Kavanagh and Ashkanasy, 2006) should be investigated. This will reflect how other members of the organisation themselves saw the respective acquisition and the role of their leader in this process rather than the accounts that managers might give of those views.

A further feature of the measures is that they relied on retrospective reports. Acquiring firm executives were asked to report on issues and practices three to six years following the event. Retrospective reports have been the subject of controversy in the strategy literature (Dunlosky and Hertzog, 2001; Huber and Power, 1985; Miller *et al*, 1997). Despite their widespread use, Schoenberg (2006) argued that informants may not be able to accurately recall the past or may wish to present 'idealised' responses. The recall period of up to six years, while long, was not considered excessive in this case. Firstly, this is justified in the acquisition literature that one should study acquisitions three to seven years after the completion as post-acquisition integration process is a dynamic, ongoing process that can affect the organisation years after the acquisition is completed (Krishnan *et al*, 1997; Risberg, 2001; Schoenberg, 2006). Secondly, the respondents were Chief Executive Officers, who are credited with high intellectual capabilities and thus, have a better ability to recall events than most (Huber and Power, 1985). Moreover, Pettigrew (1979) argued that perceptions of organisational behaviours in relation to such events have been found to remain accurate for considerable periods. The combination of these two points provides an element of confidence towards the retrospective reports in the present case. To overcome the limitations of retrospective reports, Huber and Power (1985) put forward certain guidelines for increasing the accuracy of retrospective data, each of which have been adopted in the current study (see table 6.6 for the implementation of these guidelines).

The study investigated the leadership attributes through quantitative lens and is among the first studies to provide an analysis of the leader attributes that enhance subsequent acquisition performance. However, as the post-acquisition integration is a dynamic, complex and on-going phenomenon, future research should transfer the settings provided in this study to a longitudinal, qualitative study. Future research should investigate the role of leadership in the post-acquisition context through the employment of a qualitative methodology. It should focus on the process of acquisitions and investigate how leadership can influence the acquisition outcome. It was mentioned above that this study investigated leadership attributes *a posteriori* using retrospective reports on the phenomenon. Future research should adopt a research design that will allow for the study of leaders across different times. It should investigate the role of leadership in this process integrating data from before the acquisition, during the legal and financial integration process and during the post-acquisition integration process. Only then an integrated and coherent assessment of the role of leadership will be achieved.

Although meticulous attention was paid in constructing and testing the measures in the present study, 'survey data are by their nature imperfect and may not fully capture all aspects of the complex phenomena under investigation' (Lubatkin *et al*, 1998:681). Moreover, Ambos and Schlegelmilch (2004) stated that in studies employing regression models, other variables might moderate the discovered relationships. This means that even though the study used validated and reliable constructs to measure the effects of the chosen dynamics on post-acquisition organisational performance, there are certain variables and dynamics that were not included in the development and administration of the survey instrument. These limitations are outlined below.

This study used the Full Range of Leadership theory as a surrogate measure of leadership. These scales have been extensively used on measuring the effect of leadership in different organisational phenomena and on organisational performance (Nemanich and Keller, 2007) and are known for their validity and reliability (Antonakis *et al*, 2003). As acquisitions are dynamic processes a more in-depth investigation of the role of leadership in enhancing post-acquisition organisational performance was needed. This study did not, however, control for demographic variables of the leader, for instance age, tenure, education, rewards and premiums (Buchholtz *et al*, 2003; Lubatkin *et al*, 1999; Wright *et al*, 2002), their perceptions of the acquisition (Krug and Hegarty, 2001; Ullrich *et al*, 2005), cross-cultural competence and intelligence (House *et al*, 2002; Johnson *et al*, 2006) and how they manage the change process of the integration (Kavanagh and Ashkanasy, 2006). However, this study attempted to cover the gap in the literature mentioned by Javidan *et al* (2004) regarding the attributes that make a leader successful in enhancing post-acquisition organisational performance. In achieving this goal the study integrated the full range of leadership theory into the literature on the acquisition process. The study identified certain leadership attributes that enhance post-acquisition performance. However, as it did not control for other leadership characteristics, as mentioned above, it is important to mention that it only answers to Javidan's *et al* (2004) question from the full range of leadership theory point of view.

This research provides a simultaneous assessment under different acquisition contexts of the factors, including leadership styles that enhance post-acquisition organisational performance. However, this study did not control for industry dynamics of the service and manufacturing firms as mentioned by Greenwood *et al* (1994), Lowendahl (1997), Ranft and Lord (2002) and Porter (1987) (see section 4.7.5.3 and 8.6.3). Hence, future research should include specific industry dynamics when investigating the acquisitive behaviour of organisations depending on the industry they operate in.

Moreover, this study measured culture on the organisational level. It did not take into account national culture influences in the integration process of two organisations in cross-border acquisitions (Hofstede, 1998; Morosini *et al*, 1998; Olie, 1994; Tihanyi *et al*, 2005). The analysis of national culture fit (see section 3.3.2.2) indicated that national culture fit plays an important role in value creation and synergy realisation in cross-border acquisitions. Although the results of the analysis on the effect of national culture fit are mixed (see McSweeney, 2002; Tihanyi *et al*, 2005), studies that investigate the factors that enhance post-acquisition organisational performance should control for culture distance (e.g. Morosini *et al*, 1998; Uhlenbruck, 2004). Therefore, another limitation of this study is that it did not control for national culture fit (Brouthers and Brouthers, 2000; Leung *et al*, 2004; Shenkar, 2001; Slagen and Hennart, 2008; Weber *et al*, 1996) and did not take into account the cross-cultural theory (House *et al*, 2002; Kirkman *et al*, 2006; McSweeney, 2002) although it investigated subsequent acquisition performance on cross-border acquisitions.

Future research investigating the leadership attributes that enhance post-acquisition organisational performance should also integrate cross-cultural theory (Hofstede, 1980; Kirkman *et al*, 2006; McSweeney, 2002; Tihanyi *et al*, 2005) in order to explain what makes an acquisition leader successful. In relation to the above recommendation it should be mentioned that this research investigated organisational culture as a form of relatedness. Future research investigating the attributes of leadership in cross-border acquisitions should focus on investigating the effects of national culture on the attributes of leadership and the effect that this has on post-acquisition organisational performance. Studying only organisational culture in cross-border settings is a limitation of this study. Future research should investigate the same variables for acquisition motives, relatedness, integration strategies and integration intention as well as transfer of resources, capabilities and knowledge and the multiple performance indicators developed in this study but include measures of culture distance (Morosini *et al*, 1998; Tihanyi *et al*, 2005) as well as the cultural leader attributes (House *et al*, 2004) and the cross-cultural competence attributes (Johnson *et al*, 2006). This will allow the researcher to fully understand how national culture and organisational culture shape the organisational processes and practices and the management of the post-acquisition integration process. Moreover, it would give an insight on how leaders can influence the subsequent acquisition performance in cross-border acquisitions.

Closely linked to the cross-cultural theory is the institutional theory. McSweeney (2002) argued that the social and institutional differences among cross-border partners are a direct result of the consequences of national culture. Brannen and Salk (2000) argued that contextual influences should also be studied in cross-border transactions. These can be divided into two categories: intra- and extra- organisational sources of influence. The intra-organisational sources of influence include organisational structure sources and the extra-organisational sources include the institutional, historical, geographical and business environment that the organisation operates in (Barinaga, 2007; Brouthers and Brouthers, 2000; Davis *et al*, 2000; Fink and Holden, 2005; Harzing, 2002; Hennart and Reddy, 1997; Morosini *et al*, 1998; Uhlenbruck and De Castro, 2000; Vaara *et al*, 2003). Another limitation of this study is that it did not control for institutional variables in investigating the determinants of cross-border performance.

Future research on cross-border acquisitions should control for institutional variables between the two countries. Institutional theory attends to the deeper and more resilient aspects of social structure (Ferner *et al*, 2005). It considers the processes by which structures, including schemas; rules, norms, and routines, become established as authoritative guidelines for social behaviour (Scott, 1987). It inquires into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse (Oliver, 1991). Powell and DiMaggio (1991:8) shed light on the meaning of 'institutions' by offering a definition of the institutional field: 'The new institutionalism in organization theory and sociology comprises a rejection of rational-actor models, an interest in institutions as independent variables, a turn toward cognitive and cultural explanations, and an interest in properties of supra-individual units of analysis that cannot be reduced to aggregations or direct consequences of individuals' attributes or motives". This implies that future research on cross-border acquisitions should investigate the structures, policies, rules, norms of the institutions that operate in the specific countries in order to assess how institutional variables shape and guide leaders' behaviours in implementing the post-acquisition integration process. Moreover, it should be noted that when controlling for institutional variables, future research should also take into account if the organisations studied are acquiring recently privatised organisations in transition economies as the institutional dynamics might vary (Uhlenbruck and Castro, 2000).

These two limitations (the absence of cross-cultural and institutional variables from the study) are a direct result of the objectives of the study. This is due to the simultaneous assessment of six different acquisition contexts. Therefore, the cross-sectional nature of the study precludes a direct examination of these particular constructs. The study used generic performance indicators as well as generic dynamics of acquisitions in order to achieve the objective of a simultaneous assessment of acquisitions. Even though the study was successful in achieving this objective, it had to omit variables that were context specific. This is also a limitation that Lubatkin *et al* (1998) faced when dealing with cross-sectional data. However, careful consideration of the variables chosen was taken in order to ensure their validity and reliability in predicting subsequent acquisition performance.

This study is among the first to offer a simultaneous assessment of the phenomenon of acquisitions across three different dimensions. It fills the gap presented in most of the studies (see section 3.4) that is the absence of a multidisciplinary, multi-industry assessment of acquisitions (see Birkinshaw *et al*, 2000; Barkema and Vermeulen, 1998; Haleblian *et al*, 2006; Hayward, 2002; Krug and Hegarty, 2001; Meyer and Altenborg, 2007; Saxton and Dollinger, 2004; Zollo and Singh, 2004). This study follows the process school of thought in assessing the effect that leadership styles have in enhancing post-acquisition organisational performance. It also draws from the organisational and cultural school of thought in order to provide the multidisciplinary assessment of the success factors in acquisitions. It also provides a multi-industry assessment as well as a comparison between domestic and cross-border acquisitions. This cross-sectional assessment did not allow for the inclusion of deal-specific and context-specific constructs as mentioned above.

Although the sample size of this study is large enough to allow generalisation, a larger sample will allow for a better assessment of the predictors of acquisition performance and the role leadership in this process. This is also due to the treatment of outliers. As mentioned in chapter 6, outliers were replaced by the median so as not to lose any cases from the sample. This allows for generalisation of the results as the sample was kept to 139 cases but has also some implications. Replacing the outliers with the median meant that some extreme cases were lost from the sample. This is consistent with the theory on outliers but has some implications for the interpretation of the results. Homogeneity of the sample was achieved in order to improve the significance levels and this has allowed for an average picture of the success factors of an acquisition to be built. However, this does not mean that all acquisitions will be successful if they follow the practical implications of the results as extreme cases were not taken into account. Therefore, in future research a larger sample will be able to provide a more accurate picture of the success factors and will be able to treat the extreme cases accordingly, generating more concrete findings. Also, a larger sample will allow for the simultaneous analysis of eight different acquisition contexts. This study was limited in offering simultaneous assessment of six conditions based on industry classification, market relatedness and degree of integration. Future research should combine these conditions to further investigate the practices of organisations. For instance, future research can split the sample according to the following eight contexts:

1. Manufacturing firms engaging in domestic acquisitions with high integration
2. Manufacturing firms engaging in domestic acquisitions with low integration
3. Manufacturing firms engaging in cross-border acquisitions with high integration
4. Manufacturing firms engaging in cross-border acquisitions with low integration
5. Service firms engaging in domestic acquisitions with high integration
6. Service firms engaging in domestic acquisitions with low integration
7. Service firms engaging in cross-border acquisitions with high integration
8. Service firms engaging in cross-border acquisitions with low integration

This investigation of different contexts will provide a holistic assessment of the leadership attributes that can enhance post-acquisition organisational performance. Future studies could apply Larsson's (1993b) case survey method for analysing a larger sample of acquisitions and dividing it into several sub-groups.

9.7 Practical Implications

From the standpoint of the practitioner, each acquisition is to some extent a case in itself (Kusewitt, 1985). This research studied different acquisition contexts in order to provide a holistic view to the applicability of the results. The present study is based on an integrated and multidisciplinary approach to the post-acquisition integration process and the dynamics that exist in this process and has advanced knowledge by offering practitioners a holistic and wider view of the dynamics that exist in acquisitions. Section 8.6 and tables

8.16, 8.18, 8.20, 8.22, 8.24 and 8.26 provide the results of the backward deletion regression in all the sub-groups. The purpose of this analysis was to identify the success factors as well as factors that hinder the enhancement of post-acquisition organisational performance. Since individual backward deletion regressions were used, the findings of this study provide recommendations on six different dimensions of acquisitions. This simultaneous assessment of different acquisition contexts and the provision of recommendations for each of these contexts according to the results of the backward deletion regression present the uniqueness of this study. The recommendations on the six different acquisition contexts are presented below.

Domestic Acquisitions

The results of this study point out that to enhance the performance of domestic acquisitions managers and chief executive officers should pay attention to meeting certain requirements. Table 9.8 provides an overview of these requirements as derived from the backward deletion regression in table 8.16.

Table 9.8: Performance in domestic acquisitions

Factors enhancing performance	Factors impeding performance
Transfer of resources, capabilities and knowledge	Reactive leadership
Similar autonomy and decision-making approaches	Laissez-faire leadership
Similar innovation and risk-taking strategies	
Intellectual stimulation	

Post-acquisition organisational performance will be enhanced if leaders exhibited intellectual stimulation towards the post-acquisition integration process while integrating the policies, practices and organisational cultures of the two organisations. Intellectual stimulation will enable leaders to change or align systems to accommodate for the changes necessary for the integration of the two organisations. This leadership attribute will also coach employees to take greater responsibility for their own development as well as the development of others. Leaders in this process should communicate to the employees the vision and goals of the acquisitions as well as the specific actions taken in order to ensure the harmonisation of this process.

The results of the study also indicate that in order for the organisation to achieve the expected results from the acquisition, leaders should focus on transferring resources, capabilities and knowledge between the two organisations. The combined company should focus on sharing innovation capabilities that will enable the organisation to increase their innovativeness as well as to increase the efficiency of operations and productivity. Increased consideration should also be given in matters of relatedness. Culture fit, in terms of similar innovation and risk-taking strategies as well as similar autonomy and decision-making approaches, between the two organisations is significant determinants of post-acquisition organisational performance. Similarities in these two areas will facilitate the integration process as there will be a common background in the two organisations minimising potential conflicts that might arise.

Cross-Border Acquisitions

Table 8.18 provided the results on the backward deletion regression on cross-border acquisitions. These results indicate the success factors of cross-border acquisitions and are presented in table 9.9.

Table 9.9: Performance in cross-border acquisitions

Factors enhancing performance	Factors impeding performance
Size	Dear with interdependencies in a firm's environment
Transfer of resources, capabilities and knowledge	Similar autonomy and decision-making approaches
Degree of integration	Inspirational motivation
Expand product lines and enter new business	Management-by-exception
Similar evaluation and reward criteria	Reactive leadership
Similar innovation and risk-taking strategies	
Intellectual stimulation	
Idealised behaviour	

In order for cross-border acquisitions to be successful leaders should exhibit attributes of both intellectual stimulation and idealised behaviour-charismatic leadership. It was pointed that out that the dynamics of cross-border acquisitions are more complex due to the influence of national culture, different norms and perceptions and different political systems (see section 2.6 and 3.3.2.2). Therefore, leaders should be charismatic in order to facilitate the integration process. Charismatic leaders have a transforming effect on organisations as well as on individuals. They are capable of ensuring that the goals have been met by motivating employees and instilling a sense of belonging. Hence, employees will not feel alienated and they will identify themselves with the newly formed organisation.

A charismatic leader will prevent any conflicts between the two organisations arising from differences in national cultures as s/he will exhibit an increased awareness and consideration of the host country's national culture and politics. At the same time, leaders in cross-border acquisitions should not exhibit characteristics of management-by-exception as it will have an adverse impact on acquisition performance. Employees should be guided through the process and motivated to achieve the intended goals and therefore, leaders should not focus on irregularities, mistakes, exceptions and imposing certain standards. The results also point out that employees should be given a certain degree of autonomy in completing the allocated tasks and consequently, their productivity and job satisfaction will increase leading to higher post-acquisition organisational performance.

Cross-border acquisitions are often used by organisations to enter a new geographical market. In order to achieve this goal, transfer of resources, capabilities and knowledge is imperative. The combined organisation will reach their objectives if they focus in achieving increased market coverage and access to new products and customer bases. The two organisations should have similarities in their managerial practices and approaches. This will allow the target organisation to continue their operations with no major interruptions and it will also enable the acquiring organisation to alleviate any potential conflicts between the two organisations.

Acquisitions in the service industries

Table 8.20 provided the results on the backward deletion regression on acquisitions in service industries. These results indicate the success factors of acquisitions in service industries and are presented in table 9.10.

Table 9.10: Performance in acquisitions in service industries

Factors enhancing performance	Factors impeding performance
Transfer of resources, capabilities and knowledge	Reactive leadership
Expand product lines and enter new business	Laissez-faire leadership
Similar innovation and risk-taking strategies	
Intellectual stimulation	

Leaders that engage in acquisitions in the service industries should exhibit intellectual stimulation characteristics in order to harmonise the integration process. Service industries are characterised as human capital intensive. This means that any knowledge created in the organisation is proprietary to individuals within the firm. This poses a challenge for the leaders integrating two service firms. Through intellectual stimulation the leader will imbue employees with the necessary level of commitment, engagement, confidence and comfort to work through this transition phase. The leader will inspire a sense of purpose, coherence and trust that will allow employees to remain focused and highly engaged on the job. The transformational leader will understand the specific dynamics in a service firm environment and will recognise the proprietary knowledge that exists in both organisations.

Furthermore, increased post-acquisition organisational performance will be achieved if the acquisition occurs to expand product lines and enter new markets and business. In order to achieve this objective the two organisations should show similarities in innovation and risk-taking strategies. These similarities will allow them to coordinate their activities and reach a common understanding on how to manage the integration process and create value through the acquisition.

Acquisitions in the manufacturing industries

Table 8.22 provided the results on the backward deletion regression on acquisitions in manufacturing industries. These results indicate the success factors of acquisitions in manufacturing industries and are presented in table 9.11.

Table 9.11: Performance in acquisitions in manufacturing industries

Factors enhancing performance	Factors impeding performance
Experience	Idealised behaviour
Transfer of resources, capabilities and knowledge	Laissez-faire leadership
Expand product lines and enter new business	
Similar managerial approaches	
Similar strategic orientation	
Similar innovation and risk-taking strategies	
Intellectual stimulation	

In order to enhance acquisition performance in manufacturing industries and to manage the integration process the leader should exhibit intellectual stimulation. This means that the leader will focus on intellectually challenge the employees and the integration process by re-examining critical assumptions and strategies to question whether they are appropriate for the achieving the integration process. The leader will also seek different perspectives in dealing with problems that arise in the integration process as well as will suggest new ways of thinking and of looking at how to achieve the objectives of the acquisition.

Moreover, previous acquisition experience will enable the leader to effectively manage the integration process and enhance the post-acquisition organisational behaviour. Likewise, similar managerial practices, similar innovation and risk-taking strategies as well as similar strategic orientation are determinants of increased performance in acquisitions in manufacturing industries. Similar strategic orientation has an important role in manufacturing industries as it will enable them to capitalise quicker the manufacturing capabilities of the target firm as well as their products in order to achieve increased R&D output, greater innovation capabilities and increased competitiveness while increasing their market share and broadening their product-portfolio. This process will also be facilitated if there is a transfer of innovation capabilities and managerial capabilities between the two organisations in order to increase the product output of the organisation and create possibilities for both product and process innovation.

Acquisitions with a high degree of integration

Table 8.24 provided the results on the backward deletion regression on acquisitions with high degree of integration. These results indicate the success factors of acquisitions with high degree of integration and are presented in table 9.12.

Table 9.12: Performance in acquisitions with high degree of integration

Factors enhancing performance	Factors impeding performance
Experience	Management-by-exception
Transfer of resources, capabilities and knowledge	Laissez-faire leadership
Similar managerial approaches	
Similar innovation and risk-taking strategies	
Intellectual stimulation	
Inspirational motivation	

Companies that decide to integrate the target organisation to a significant extent face complex and dynamic challenges. Leaders in this case should demonstrate attributes of intellectual stimulation and inspirational motivation in order to achieve the harmonisation of the post-acquisition integration process. The transformational leaders should aim to engage and motivate their employees to reach the intended goals. The leaders should inspire their followers and increase their organisational identification in order to facilitate the integration process and minimise any conflicts. Conflicts between the two organisations are bound to occur in acquisitions with a high degree of integration as the two organisations are coming together to amalgamate their operations. This can potentially lead to clashes between the two organisational cultures as well as between the perceptions and feelings of the employees. Transformational leaders exhibiting intellectual stimulation and inspirational motivation will be able to address employees' needs and inspire increased trust to the combined organisation. Furthermore, transformational leaders will effectively manage the integration of the departments, policies and practices of the two organisations.

Similarly, transfer of resources, capabilities and knowledge facilitate the integration process as the two organisations come together to integrate in a high degree their operations, departments, practices and organisational cultures. This transfer of resources and knowledge will create a common sense of belonging as there will be exchanges between the two organisations that are striving to achieve high results. This will also lead to synergy realisation and value creation since the two organisations will share the resources, capabilities and knowledge needed to manage the combined organisation, hence, increasing the innovativeness of the company as well as the competitiveness and the reputation of the firm. Similar managerial practices and similar innovation and risk-taking strategies will facilitate the transfer of operational, functional and managerial resources that are needed to manage the integration process and enhance post-acquisition organisational performance.

On the other hand, management-by-exception has a negative impact on post-acquisition performance. This implies that leaders should aim at broadening and elevating the interests of employees, generating awareness and acceptance among the employees of the purposes and mission of the group. In acquisitions it is crucial to have a long-term vision on how the process should be managed and the specific results to be achieved rather than focusing on irregularities and mistakes that arise on a daily basis.

Acquisitions with a low degree of integration

Table 8.26 provided the results on the backward deletion regression on acquisitions with low degree of integration. These results indicate the success factors of acquisitions with low degree of integration and are presented in table 9.13.

Table 9.13: Performance in acquisitions with low degree of integration

Factors enhancing performance	Factors impeding performance
Experience	Inspirational motivation
Transfer of resources, capabilities and knowledge	Contingent reward
Achieve economics of scale and scope	Reactive leadership
Similar innovation and risk-taking strategies	Laissez-faire leadership
Individual consideration	
Intellectual stimulation	
Idealised behaviour	

In order to enhance post-acquisition organisational performance in acquisitions with a low degree of integration, leaders should exhibit individual consideration, intellectual stimulation and charisma. Companies that follow this integration strategy believe that the value of the organisation will be higher if the two organisations are not fully integrated. In this context, most members of the top management team and the employees of the target organisations are retained. This allows the target organisation to have greater flexibility and autonomy regarding the daily operations. However, acquisitions with a low degree of integration can be very delicate and acquiring leaders should exhibit charisma, individual consideration and intellectual stimulation in order to ensure that the acquisition will reach the intended objectives and realise the potential synergy.

Moreover, acquisitions with a low degree of integration increase their performance when they occur for achieving economics of scale and scope. Since, the two companies are almost left independent of each other, their main aim is to increase the market coverage and broaden their product portfolio. In order to succeed in achieving economies of scale and scope, the two organisations should have similar innovation and risk-taking strategies and should focus on the exchange of resources, capabilities and knowledge in order to increase their competitive position in the market and achieve the economics of scale and scope which will allow them further access to resources, customers and efficiency in their operations. Conversely, contingent reward as a form of transactional leadership, similar business-level strategy and similar autonomy and decision-making approaches all have a negative impact on post-acquisition organisational performance in acquisitions with a low degree of integration.

This study has provided a multi-disciplinary assessment of different acquisition contexts. The study maintains that each acquisition context is a unique phenomenon in which the same variables have different effects. The discussion of the findings provided the possible rationale behind the different importance of the success factors in enhancing post-acquisition organisational performance. These findings highlighted the need of different models when assessing post-acquisition organisational performance in different acquisition contexts. Even in the context of the common dynamics considered in this study, it is unlikely that any one acquisition prospect has an ideal mix of characteristics or exactly meets all of the acquisition criteria of success. Nonetheless, knowing the impact of these criteria on long-run performance should enable organisations to maximise their subsequent acquisition performance. It should be noted that transformational leaders in each case are instrumental in creating a shared culture that embodies the business strategy of the new combined organisation. However, the results of the analysis indicate that certain dynamics are crucial for the success of the acquisition and lead to value creation and synergy realisation. These dynamics appear in all the six cases investigated in this study. These are *similar managerial approaches, similar innovation and risk-taking strategies and transfer of resources, capabilities and knowledge.*

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Appendices:

Appendix A: Questionnaire Cover Letter

Appendix B: Questionnaire

Middlesex University
Business School London

Name,
Address 1,
Address 2,
City,
Postcode

The Burroughs
Hendon
London NW4 4BT

a.vasilaki@mdx.ac.uk

Achieving merger and acquisition success

Dear Mr/Ms Name,

Firms of all sizes have adopted numerous management initiatives to ensure acquisitions are successful and that integration takes place as seamlessly as possible. However, this is rarely as successful as intended, and researchers continue to see effective means of ensuring success. Studies so far point to leadership as the main driver of successful acquisitions. With so much at stake for companies like yours, Middlesex University has initiated a major study to examine the effect that leadership has on the post-acquisition integration process.

My purpose in writing to you is to ask if your firm would be willing to participate in this study. Your firm was chosen as it has engaged in acquisitions over the past 5 years. The study is part of a continuing programme of research on the competitiveness of firms. Your participation is vital to its success.

I would be grateful if you would take the time to complete and return the enclosed questionnaire in the reply paid envelope provided, **by 30th September 2007**. It should not take you very long to complete. All replies will be treated in the **strictest confidence and no names or identities will be revealed or disclosed to third parties.**

In recognition of your support and co-operation, I shall be pleased to forward you a summary of our findings. If you have any questions on the research, please let me know.

Thank you in advance.

Yours sincerely,

Athina Vasilaki

Middlesex University
Business School London

Middlesex
University

POST-ACQUISITION STRATEGY AND PERFORMANCE MEASUREMENT

A RESEARCH STUDY

MIDDLESEX UNIVERSITY BUSINESS SCHOOL

All Replies will be treated in the strictest confidence

Thank you, in advance, for your co-operation and participation in this study. If you would like an executive summary of the results, please provide your name and address below. Otherwise please feel free to remain anonymous.

Name ____

Address ____

____

Please use the enclosed SAE to return your questionnaire to Athina Vasilaki, Middlesex University Business School, The Burroughs, London NW4 4BT. Thank you!

Email: Athina1@mdx.ac.uk

Section 1: Events leading to the acquisition

A. Objectives, Goals and Motives

What do you perceive was the acquiring company's objective in the acquisition?

	Important						Not Important
1.Utilise interlocking and mutually stimulating synergistic qualities of the acquired company vis-à-vis the acquiring company	1	2	3	4	5	6	7
2. Attain improved competitiveness inherent in holding a sizeable market share or important market position	1	2	3	4	5	6	7
3. Stop a competitor from acquiring the same company	1	2	3	4	5	6	7
4. Gain complementary financial features such as those that balance cyclicality	1	2	3	4	5	6	7
5. Utilise the acquiring company's expertise in marketing production, or other areas within the acquired company	1	2	3	4	5	6	7
6. Improve efficiencies and reduce risk in the supply of specific goods and/or services to the acquiring company	1	2	3	4	5	6	7
7. Penetrate new markets by utilising the acquired company's marketing capacities	1	2	3	4	5	6	7
8. Improve economies of scale by utilising the acquired company's distributional capabilities to absorb or expand output	1	2	3	4	5	6	7
9. Gain valuable or potentially valuable assets with the cash flow or other financial strengths of the acquiring firm	1	2	3	4	5	6	7
10. Broaden the customer base for existing goods and services of the acquiring company	1	2	3	4	5	6	7
11. Create economies of scale by relevant capacity expansion	1	2	3	4	5	6	7
12. Reduce costs and risks of entering a new industry	1	2	3	4	5	6	7
13. Fulfil the personal ambitions, vision, or some particular goal of the acquiring company's chief executive	1	2	3	4	5	6	7
14. Pursue opportunities to sell stock at a profit by such acts as pressing management of the acquired firm for improved earnings	1	2	3	4	5	6	7
15. Utilise the acquired company's personnel, skills or technology in other operations of the acquiring company	1	2	3	4	5	6	7

B. Acquisition Experience

These questions relate to the acquisition experience. Please indicate how significant the following statements are.

	Very Significant						Not Significant
1. The acquisition team had previous experience in making acquisitions	1	2	3	4	5	6	7
2. The person in charge of the integration had previous experience of acquisitions	1	2	3	4	5	6	7

C. Intended level of integration

In most cases, acquisitions can be considered in terms of the extent to which acquiring and acquired companies are integrated. Please indicate the intentions of the acquiring company.

	High						Low
1. Intention was to preserve the acquired company in its original state	1	2	3	4	5	6	7
2. Intention was to create a symbiotic organisation	1	2	3	4	5	6	7
3.Intention was to completely redesign the acquired company's policies and practices	1	2	3	4	5	6	7
4. Intention was to absorb the acquired company into the acquiring company	1	2	3	4	5	6	7

Please indicate to what extent you intended to integrate the following functions.

	Great Extent						Not at all
1. Strategy Formulation	1	2	3	4	5	6	7
2. Marketing	1	2	3	4	5	6	7
3. Research and Development	1	2	3	4	5	6	7
4. Operations	1	2	3	4	5	6	7

D. Controlling Stake

Please indicate the percentage of shares that you acquired from the target company.

a. <25% b. 25-49% c. 50-74% d. 75-100%

E. Relative Size

Please indicate the relative proportion of the acquired business's annual sales in comparison to your organisations' sales before the acquisition

a. <25% b. 25-49% c. 50-74% d. 75-100% e. >100%

F. Pre-Acquisition Relatedness

How would you classify the acquisition? Please circle.

1. Horizontal acquisition (both companies are in the same industry and at the same level of production)
2. Forward vertical acquisition (acquired a company that brought you closer to your customers)
3. Backward vertical acquisition (acquired a company that brought you closer to your supplies)
4. Unrelated acquisition (acquired a company in a different industry)

Please indicate if your acquisition was domestic or cross border by ticking the relevant box.

1. Domestic Acquisition ☐

2. Cross-border Acquisition ☐

Please indicate the level of fit between the two companies before the acquisition.

	Absolutely						Not at all
1. Similar managerial skills	1	2	3	4	5	6	7
2. Similar approaches to management problems	1	2	3	4	5	6	7
3. Extent to which the communication channels are structured	1	2	3	4	5	6	7
4. Usage of a sophisticated control and information system for tight formal control	1	2	3	4	5	6	7
5. Similar decision-making processes	1	2	3	4	5	6	7
6. Similar management styles and practices	1	2	3	4	5	6	7
7. Similar evaluation criteria	1	2	3	4	5	6	7
8. Time period over the which the reward and evaluation process focused (short-run vs. long-run performance)	1	2	3	4	5	6	7
9. Differences in the administration of rewards	1	2	3	4	5	6	7
10. Similar business-level strategy	1	2	3	4	5	6	7
11. Your products were similar	1	2	3	4	5	6	7
12. Your technology was similar	1	2	3	4	5	6	7
13. Your geographical markets were similar	1	2	3	4	5	6	7
14. The types of customers you attract were similar	1	2	3	4	5	6	7
15. You were direct competitors	1	2	3	4	5	6	7
16. Similar innovation and action orientation strategies	1	2	3	4	5	6	7
17. Similar risk-taking attitudes	1	2	3	4	5	6	7
18. Similar degree of autonomy and responsibility delegated for important decisions	1	2	3	4	5	6	7
19.Similar perceptions approaches to employee management	1	2	3	4	5	6	7
20. Similar performance orientation	1	2	3	4	5	6	7

Section 2: Events during the Integration Process

A. Leadership Style

Please indicate the extent to which you agree or disagree with the following statements concerning the leadership/management style of your organisation.

	Agree						Disagree
1. Provides others with assistance in exchange for their efforts	1	2	3	4	5	6	7
2. Re-examines critical assumptions to question whether they are appropriate	1	2	3	4	5	6	7
3. Fails to interfere with problems until they become serious	1	2	3	4	5	6	7
4. Focuses attention to irregularities, mistakes, exceptions and deviations from standards	1	2	3	4	5	6	7
5. Avoids getting involved when important issues arise	1	2	3	4	5	6	7
6. Talks about the most important values and beliefs	1	2	3	4	5	6	7
7. Is absent when needed	1	2	3	4	5	6	7
8. Seeks different perspectives when solving problems	1	2	3	4	5	6	7
9. Talks optimistically about the future	1	2	3	4	5	6	7
10. Instils pride in others	1	2	3	4	5	6	7
11.Discusses in specific terms who is responsible for achieving performance targets	1	2	3	4	5	6	7
12. Waits for things to go wrong before taking action	1	2	3	4	5	6	7
13.Talks enthusiastically about what needs to be accomplished	1	2	3	4	5	6	7
14. Specifies the importance of having a strong sense of purpose	1	2	3	4	5	6	7
15. Spends time teaching and coaching	1	2	3	4	5	6	7
16. Makes clear what one can expect to receive when performance goals are achieved	1	2	3	4	5	6	7
17. Shows that is a firm believer in 'if it ain't broke, don't fix it'	1	2	3	4	5	6	7
18. Goes beyond self-interest for the good of the group	1	2	3	4	5	6	7
19. Treats others as individuals rather than just as a member of a group	1	2	3	4	5	6	7
20.Demonstrates that problems must become chronic before taking action	1	2	3	4	5	6	7
21. Acts in ways that build respect	1	2	3	4	5	6	7
22.Concentrates full attention on dealing with mistakes, complaints and failures	1	2	3	4	5	6	7
23.Considers the moral and ethical consequences of decisions	1	2	3	4	5	6	7
24. Keeps track of mistakes	1	2	3	4	5	6	7

25. Displays a sense of power and confidence	1	2	3	4	5	6	7
26. Articulates a compelling vision of the future	1	2	3	4	5	6	7
27. Directs attention toward failures to meet standards	1	2	3	4	5	6	7
28. Avoids making decisions	1	2	3	4	5	6	7
29. Considers an individual as having different needs, abilities and aspirations from others	1	2	3	4	5	6	7
30. Gets others to look at problems from many different angles	1	2	3	4	5	6	7
31. Helps others to develop their strengths	1	2	3	4	5	6	7
32. Suggests new ways of looking at how to complete assignments	1	2	3	4	5	6	7
33. Delays responding to urgent questions	1	2	3	4	5	6	7
34. Emphasises the importance of having a collective sense of mission	1	2	3	4	5	6	7
35. Expresses satisfaction when others meet expectations	1	2	3	4	5	6	7
36. Expresses confidence that goals will be achieved	1	2	3	4	5	6	7
37. Is effective in meeting other job-related needs	1	2	3	4	5	6	7
38. Uses methods of leadership that are satisfying	1	2	3	4	5	6	7
39. Gets others to do more than they expected to do	1	2	3	4	5	6	7
40. Is effective in representing others to higher authority	1	2	3	4	5	6	7
41. Works with others in a satisfactory way	1	2	3	4	5	6	7
42. Heightens others' desire to succeed	1	2	3	4	5	6	7
43. Is effective in meeting organisational requirements	1	2	3	4	5	6	7
44. Increases others' willingness to try harder	1	2	3	4	5	6	7
45. Leads a group that is effective	1	2	3	4	5	6	7

B. Transfer of resources, knowledge and capabilities

These questions are about the transfer of resources and ideas between the two companies. Please indicate the extent to which you agree with the following statements.

	Agree						Disagree
1. Your company has incorporated a lot of the other company's innovation capabilities	1	2	3	4	5	6	7
2. A lot of resources have been shared between the acquired and acquiring companies	1	2	3	4	5	6	7
3. A lot of functional skills have been transferred between the acquired and acquiring companies	1	2	3	4	5	6	7
4. A lot of general management skills have been transferred between the acquired and acquiring units	1	2	3	4	5	6	7

Section 3: Post-Acquisition Performance

A. Financial Indicators

Please state your satisfaction with the performance of the acquisition relative to the expectations initially held for it.

	High Satisfaction						Low Satisfaction
1. Return on Assets	1	2	3	4	5	6	7
2. Return on Investment	1	2	3	4	5	6	7
3. Return on Capital Employed	1	2	3	4	5	6	7
4. Return on Sales	1	2	3	4	5	6	7
5. Growth in Market Value	1	2	3	4	5	6	7
6. Growth in Revenues	1	2	3	4	5	6	7
7. Earnings Per Share	1	2	3	4	5	6	7
8. Share Price	1	2	3	4	5	6	7
9. Shareholder Returns	1	2	3	4	5	6	7
10. Cash Flow	1	2	3	4	5	6	7

B. Non-Financial Indicators

How successful do you consider this acquisition to be in terms of:

	Very						Not at all
1. Increased R&D output	1	2	3	4	5	6	7
2. Broadened market share	1	2	3	4	5	6	7
3. Broadened customer base	1	2	3	4	5	6	7
4. Broadened product range	1	2	3	4	5	6	7
5. Innovativeness	1	2	3	4	5	6	7
6. Greater efficiency in operations	1	2	3	4	5	6	7
7. Increased productivity	1	2	3	4	5	6	7
8. Reputation of the combined company	1	2	3	4	5	6	7
9. Job satisfaction	1	2	3	4	5	6	7
10. Improved competitiveness of the organisation	1	2	3	4	5	6	7
11. Meeting the strategic goals	1	2	3	4	5	6	7

Thank You!